2007
Annual Report

Pollard Banknote Income Fund

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LETTER TO UNITHOLDERS

2007 was a challenging year for Pollard Banknote on a number of fronts, but also a year of exciting and growing opportunities. The demand for our products is at the highest levels we have seen in our history and we are introducing new technology to our processes that will yield significant gains.

Notwithstanding this unprecedented demand, however, a number of production difficulties in the fourth quarter resulted in our falling well short of our distributable cash targets. This was particularly frustrating given the potential for strong results that existed due to the large book of orders that was available to us.

We believe that the manufacturing initiatives we have taken during the year have laid the ground work for significant improvements in 2008.

As we begin our second century of operations, we remain excited by the tremendous opportunities before us in the lottery and charitable gaming industry, and look forward to being part of the continuous improvements provided by our more than 1,300 employees.

Sales

During the year ended December 31, 2007, our sales exceeded $164 million. The continued strengthening value of the Canadian dollar relative to the US dollar reduced our sales by approximately $5.2 million and our underlying sales volume was down by approximately 6% when compared to our record volume year in 2006. The first half of 2007 saw a slight softening of order levels due mostly to changes in the timing patterns of certain orders from existing customers. The second half of 2007 witnessed a significant increase in our order levels back to, and in a number of cases exceeding, the levels from 2006.

Many of our key customer contracts were extended during 2007 including New Jersey, Western Canada Lottery Corporation, Massachusetts and Arizona. Important new contracts or renewals were awarded by La Française des Jeux (France National Lottery), Minnesota, Connecticut, Mifal Hapayis (Israeli National Lottery) and Denmark.

We have also seen considerable organic growth in instant ticket sales from many of our core existing lottery customers including Ontario Lottery and Gaming Corporation, Western Canada Lottery Corporation and the Maryland Lottery.

Operations

2007 witnessed a number of new initiatives to improve our manufacturing processes. A new high speed pouching line was successfully established at the beginning of the year allowing us to produce our unique packaged lottery products much more efficiently. We completed the installation of our automated finishing and packaging line, which is a major leap ahead for us. We will begin to see significant cost improvements starting in the second quarter of 2008. We have also recently announced our commitment to expand our manufacturing capacity through the acquisition of a new press line. Expected to be installed in the third quarter of 2008, this will be our first "all-in-line" press, providing important production efficiencies and cost savings as well as significant added capacity.

We also welcomed a new facility to our family of manufacturing plants with the initial start-up of our operation in Sault Ste. Marie, Ontario, established to provide finishing and packaging services to the Ontario Lottery and Gaming Corporation as part of our new 10 year contract to provide instant ticket products and related services.

The challenges faced in the fourth quarter have been addressed and, although there will be some lingering impact on the first quarter of 2008, we are confident going forward we will show significantly improved results.

Distributable Cash

During the year ended December 31, 2007, we generated $18.2 million in distributable cash or $0.7709 per unit. This result fell short of our target of $0.9504 established for the year. Pollard Holdings Limited Partnership declared and made cash distributions of $22.4 million during the year – a payout ratio of 123%. Since going public on August 5, 2005, our cumulative payout ratio is 104%, with distributions paid to unitholders exceeding $53 million.

Outlook for 2008

Despite the shortfall in financial results in 2007, the outlook for 2008 remains very positive. The lottery industry continues to show healthy growth, particularly in the instant ticket product line. Historically lotteries have shown strong resilience in all stages of the economic cycle, including down turns in the economy, and we expect this to continue. Our order book is growing and many opportunities exist to increase sales, including through organic growth with existing clients, improved value added selling opportunities and new client acquisitions.

Our new press line will be an important stage in our ongoing development when it comes on stream in the latter part of the year which will allow us to grow both revenue and distributable cash.

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

We would also like to take this opportunity to thank our many stakeholders: our employees, who every day define "integrity" in everything they do; our customers, whose high standards push us to excel; our suppliers, who provide products and services to exacting standards; and our unitholders, who show their commitment to our vision by investing in the Fund.

Gordon Pollard
CO-CHIEF EXECUTIVE OFFICER

John Pollard
CO-CHIEF EXECUTIVE OFFICER

Lawrence Pollard

CHAIRMAN, DIRECTOR

Lawrence Pollard joined Pollard Banknote in 1947 and served as President of the company from 1960 until 1997. Mr. Pollard serves on the board of directors of several public and private companies including Gendis Inc. and the Grain Insurance and Guarantee Co. He has served as president of the Winnipeg Chamber of Commerce and was named Manitoba's Entrepreneur of the Year in 1991.

Del Crewson

TRUSTEE AND DIRECTOR

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

The Honourable Gary Filmon, P.C., O.M.

TRUSTEE AND DIRECTOR

Gary Filmon was Premier of Manitoba from 1988 through 1999. A registered professional engineer, Mr. Filmon attended the University of Manitoba, receiving both his Bachelor of Science Degree and Master's Degree in Civil Engineering. He is currently a Director of Wellington West Capital Inc., a Director and Trustee of Arctic Glacier Income Fund, Chair of Canada's Security Intelligence Review Committee and Chairman of the Exchange Industrial Income Fund. As well, he is a Director of F.W.S. Construction Limited, Manitoba Telecom Services Inc. and Canadian Natural Resources Limited.

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 member of the Institute of Chartered Accountants of Manitoba.

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, 2007, is prepared as at March 5, 2008, 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, 2007. Results are reported in Canadian dollars and have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP").

Forward-Looking Statements

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

Use of Non-GAAP Financial Measures

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

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

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

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

Basis of Presentation

The results of operations in the following discussions encompass the consolidated results of the Fund and Pollard LP for the year ended December 31, 2007. All figures are in millions except for unit amounts.

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

Pollard Banknote Income Fund

Formation of the Fund

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

Results of Operations

The Fund earned $4.7 million in net income from its investment in Pollard LP for the year ended December 31, 2007, compared to $2.0 million in the year ended December 31, 2006. The Fund's net income is limited to its proportionate share of net income of Pollard LP, less the amortization of the excess of the purchase price of its investment in Pollard LP over the underlying assets acquired and less the administrative expenses incurred by the Fund plus the impact of future income tax reductions. The Fund recorded amortization related to the purchase price adjustment of $1.8 million (2006 - $1.8 million), administrative expenses of $0.2 million (2006 - $0.2 million) and a future income tax reduction of $0.4 million for the year ended December 31, 2007.

The Fund is entirely dependent on distributions from Pollard LP to make its own distributions. During the year ended December 31, 2007, the Fund received a total of $6.2 million in distributions from Pollard LP compared to $6.2 million in the year ended December 31, 2006.

As at December 31, 2007, the Fund had total assets of $56.6 million. Its largest single asset is its investment in Pollard LP. The Fund had no long-term financial liabilities as at December 31, 2007.

Net Income per Unit

Net income per Unit for the year ended December 31, 2007, was $0.75 per unit (basic and diluted). Adjusted Distributable Cash per unit for the year ended December 31, 2007, based on the underlying business of Pollard LP, was $0.7709 per unit (see "Adjusted Distributable Cash Reconciliation").

Net income for the year ended December 31, 2006, was $0.32 per unit. Adjusted Distributable Cash for the year ended December 31, 2006, based on the underlying business of Pollard LP was $1.01 per unit.

Tax Fairness Plan

The legislation relating to the Tax Fairness Plan was passed into law during the second quarter of 2007, however significant detailed rules and regulations are still lacking. As these gaps in the regulatory framework are filled, particularly in regards to tax efficient means to revert to corporate status, we will develop specific strategic responses at that time. The introduction of additional taxation under this legislation will not apply to the Pollard Banknote Income Fund until 2011.

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 has reduced the future income tax assets recorded by a valuation allowance for the amount of the temporary difference that it does not expect to reverse in the foreseeable future.

Tax Treatment of Distributions

The tax treatment of the 2007 distributions has been determined as follows:

TOTAL DISTRIBUTION FOR 2007 PER UNIT $0.9504

T3 BOX	DESCRIPTION		AMOUNT
49	Actual Amounts of Eligible Dividends	9.2%	$0.0871
24	Foreign Business Income	0.8%	$0.0074
25	Foreign Non-Business Income	4.8%	$0.0456
26	Other Taxable Income	49.7%	$0.4725
42	Return of Capital	35.5%	$0.3378
			$0.9504

Financial Instruments

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

Critical Accounting Policies and Estimates

The preparation of the financial statements in conformity with Canadian generally accepted accounting principles ("Canadian GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenue and expenses during the reporting period. Management of the Fund regularly reviews its estimates and assumptions based on historical experience and various other assumptions that it believes would result in reasonable estimates given the circumstances. Actual results could differ from those estimates under different assumptions. The following is a discussion of accounting policies that requires significant management judgment and estimation. For a discussion of all of the Fund's accounting policies, including the items outlined below, refer to note 2 of the consolidated financial statements of the Fund.

INVESTMENT

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

INCOME TAXES

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

Distributions

During 2007 the Fund declared the following distributions:

DATE DECLARED	MONTH	DATE OF RECORD	PAYMENT DATE	AMOUNT PER UNIT
January 15	January	January 31	February 15	$0.0792
February 14	February	February 28	March 15	$0.0792
March 14	March	March 30	April 16	$0.0792
April 12	April	April 30	May 15	$0.0792
May 9	May	May 31	June 15	$0.0792
June 13	June	June 29	July 16	$0.0792
July 12	July	July 31	August 15	$0.0792
August 8	August	August 31	September 17	$0.0792
September 12	September	September 28	October 15	$0.0792
October 10	October	October 31	November 15	$0.0792
November 7	November	November 30	December 17	$0.0792
December 12	December	December 31	January 15, 2008	$0.0792
Total				$0.9504

Units

As at December 31, 2006, December 31, 2007, and March 5, 2008, 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 Amalco Inc. ("Amalco"). 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.

On August 5, 2005, the Fund, the Trust, Pollard Banknote Limited (the "General Partner"), Pollard LP and Amalco entered into an exchange agreement (the "Exchange Agreement"). The Exchange Agreement stipulates that Amalco has the right to require the Fund to indirectly exchange Class B LP Units and Class C LP Units held by Amalco 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.

Changes in Accounting Policies

FINANCIAL INSTRUMENTS

Effective the commencement of its 2007 fiscal year, the Fund has adopted the Canadian Institute of Chartered Accountants (CICA) Handbook Section 1530, *Comprehensive Income*, Section 3251, *Equity*, Section 3855, *Financial Instruments - Recognition and Measurement*, Section 3861, *Financial Instruments - Disclosure and Presentation* and Section 3865, *Hedges*. These new Handbook sections, which apply to fiscal years beginning on or after October 1, 2006, provide comprehensive requirements for the recognition and measurement of financial instruments, as well as standards on when and how hedge accounting may be applied.

Handbook Section 1530 also establishes standards for reporting and displaying comprehensive income.

ACCOUNTING CHANGES

In January 2007, the CICA revised Handbook Section 1506, *Accounting Changes*, effective for annual and interim periods beginning on or after January 1, 2007. Section 1506 prescribes the criteria for changing accounting policies, changes in accounting estimates and correction of errors. This section recommends voluntary changes to accounting policies are to be applied retrospectively unless it is impractical to do so. Section 1506 also requires changes in estimates to be applied prospectively, while prior period's errors are to be corrected retrospectively. This is not expected to have a material impact on the Fund's financial statements.

Future Changes in Accounting Policies

The Fund has adopted the following new accounting standards on January 1, 2008.

CAPITAL DISCLOSURES AND FINANCIAL INSTRUMENTS – PRESENTATION AND DISCLOSURE

The CICA issued three new accounting standards: Section 1535 *Capital Disclosures*, Section 3862, *Financial Instruments – Disclosures*, and Section 3863 *Financial Instruments – Presentation*. These new standards are effective for fiscal years beginning on or after October 1, 2007. The Fund is in the process of evaluating the disclosure and presentation requirements of the new standards.

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

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

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, 2007, these reimbursed costs totaled $0.2 million (2006 - $0.2 million).

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.

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.

PRODUCT LINE BREAKDOWN OF REVENUE

	YEAR ENDED DECEMBER 31, 2007	YEAR ENDED DECEMBER 31, 2006
Instant Tickets	85%	85%
Charitable Gaming Products	13%	13%
Vending Machines	2%	2%

GEOGRAPHIC BREAKDOWN OF REVENUE

	YEAR ENDED DECEMBER 31, 2007	YEAR ENDED DECEMBER 31, 2006
United States	55%	58%
Canada	24%	22%
International	21%	20%

Formation of the Limited Partnership

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

The Fund's economic interest in Pollard LP approximates 26.7% and Amalco's 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 $18.2 million during the year ended December 31, 2007, after considering the expenses of the Fund. The payout ratio for the year ended December 31, 2007, was 123.3%.

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

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

Pollard LP generated Adjusted Distributable Cash totaling $23.7 million during the year ended December 31, 2006, after considering the expenses of the Fund and the long term incentive plan ("LTIP") accrual. The payout ratio for the year ended December 31, 2006, was 94.5%.

Based on a target of $22.4 million for the year, Adjusted Distributable Cash exceeded target by $1.3 million in the year ended December 31, 2006.

On a per unit basis, Adjusted Distributable Cash for the year ended to December 31, 2006, totaled $1.0061, approximately $0.0557 over the target of $0.9504 per unit.

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

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

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

The following financial information should be read in conjunction with the accompanying financial statements of the Fund and Pollard LP and the notes therein as at and for the year ended December 31, 2007.

Reconciliation of Net Income to Adjusted Distributable Cash

(MILLIONS OF DOLLARS)	REFERENCE	YEAR ENDED DECEMBER 31, 2007	YEAR ENDED DECEMBER 31, 2006
Net Income		$23.4	$15.0
Adjustments:			
Interest		2.7	2.6
Unrealized foreign exchange gain		(2.2)	(0.3)
Long-Term Incentive Plan (LTIP) expense		-	0.2
Mark-to-market (gain) loss on foreign currency contracts		(6.3)	4.0
Income taxes (recovery)		(0.4)	1.5
Amortization		6.4	6.9
EBITDA		23.6	29.9
Less:			
Cash taxes		(1.6)	(1.9)
Interest		(2.7)	(2.6)
Maintenance capital expenditures	1	(0.9)	(1.3)
LTIP expense	2	-	(0.2)
Cash Available for Distribution (before Fund expenses)		18.4	23.9
Expenses of the Fund	3	(0.2)	(0.2)
Adjusted Distributable Cash	4	$18.2	$23.7

[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 accrual for payments under the LTIP.

[3] Represents expenses borne by the Fund.

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

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, 2007	YEAR ENDED DECEMBER 31, 2006
Net cash provided by operations		$20.3	$23.5
Total capital expenditures		(6.0)	(3.5)
Standardized Distributable Cash		14.3	20.0
Net change in non-cash working capital		(1.0)	1.7
Growth capital expenditures	1	5.1	2.2
Adjusted Distributable Cash (before Fund expenses)		18.4	23.9
Expenses of the Fund	2	(0.2)	(0.2)
Adjusted Distributable Cash		18.2	23.7
Percentage of Adjusted Distributable Cash available to Fund Unitholders	3	26.7%	26.7%
Adjusted Distributable Cash available to Fund Unitholders	4	$4.9	$6.3
Distributions declared and payable to Fund Unitholders		$6.0	$6.0
Adjusted Distributable Cash per LP Unit		$0.7709	$1.0061
Distributions declared per LP Unit		$0.9504	$0.9504
Number of Fund Units outstanding		6,285,700	6,285,700
Capital Expenditures:			
Maintenance expenditures	5	$0.9	$1.3
Growth expenditures	1	5.1	2.2
Total		$6.0	$3.5

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 on a monthly and quarterly basis due to seasonal cash flows, timing of maintenance capital expenditures, income taxes paid and interest costs on outstanding debt.

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

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

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

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

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

The distribution policy of Pollard LP is to distribute its available cash as determined by the trustees. The current annual target for per unit distributions of the Fund is $0.9504. Distributions until September 30, 2007, were made on the Class A LP Units and Class B LP Units within 15 days of the end of each month and on the Class C LP Units within 15 days of the end of each fiscal quarter. Commencing October 1, 2007, (the subordination end date) the Class C Units will have equivalent economic and voting rights as the Class A and B Units, including monthly distributions. Distributions will be paid to the limited partners of record on the last day of the month in respect of which the distributions are to be paid.

The subordination end date is the first date following June 30, 2007, provided as set out in the limited partnership agreement, that Pollard LP has realized annual EBITDA, of $28.1 million and the Fund and Pollard LP paid monthly cash distributions of at least $0.0792 per unit or LP unit, for the preceding 24-month period. It has been determined that the subordination end date occurred October 1, 2007.

Selected Financial Information

(MILLIONS OF DOLLARS)

	YEAR ENDED DECEMBER 31, 2007	YEAR ENDED DECEMBER 31, 2006	FOURTEEN MONTHS ENDED DECEMBER 31, 2005	YEAR ENDED OCTOBER 31, 2004
			(UNAUDITED) (NOTE 3)	(NOTE 3)
Sales	$164.5	$176.7	$207.3	$171.9
Cost of Sales	130.5	136.5	160.1	133.4
Gross Profit	34.0	40.2	47.2	38.5
Gross Profit as a % of sales	*20.7%*	*22.8%*	*22.8%*	*22.4%*
Selling and Administration Expenses	19.1	19.3	22.5	19.4
Expenses as a % of sales	*11.6%*	*10.9%*	*10.9%*	*11.3%*
Adjusted EBITDA (note 2)	23.6	29.9	33.0	28.3
Adjusted EBITDA as a % of sales	*14.3%*	*16.9%*	*15.9%*	*16.5%*

	DECEMBER 31, 2007	DECEMBER 31, 2006	DECEMBER 31, 2005	OCTOBER 31, 2004
				(NOTE 3)
Total Assets	$107.1	$104.6	$99.5	$96.2
Total Long Term Liabilities	$46.9	$49.6	$49.9	$24.6

Reconciliation of Net Income to Adjusted EBITDA

(MILLIONS OF DOLLARS)

	YEAR ENDED DECEMBER 31, 2007	YEAR ENDED DECEMBER 31, 2006	FOURTEEN MONTHS ENDED DECEMBER 31, 2005	YEAR ENDED OCTOBER 31, 2004
			(UNAUDITED) (NOTE 3)	(NOTE 3)
Net income	$23.4	$15.0	$19.2	$4.9
Add back:				
Unrealized foreign exchange gain	(2.2)	(0.3)	(0.3)	(1.2)
Mark-to-market loss (gain) on foreign currency contracts	(6.3)	4.0	(4.1)	-
Amortization	6.4	6.9	9.2	8.6
Interest	2.7	2.6	1.8	0.9
Income taxes (recovery)	(0.4)	1.5	4.9	3.8
Long-Term Incentive Plan (LTIP) expense	-	0.2	0.1	-
EBITDA	23.6	29.9	30.8	17.0
Adjustments to EBITDA:				
Non-controlling interest in income of subsidiary	-	-	0.3	0.1
Non-recurring management bonus	-	-	1.9	8.0
Other non-recurring expenses	-	-	-	3.2
Adjusted EBITDA (note 2)	$23.6	$29.9	$33.0	$28.3

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

NOTES:

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

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

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

Review of Operations

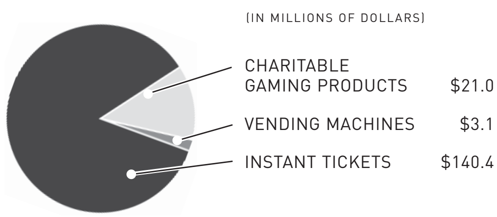
Financial and operating information has been derived from, and should be read in conjunction with, the consolidated financial statements of Pollard LP and the selected financial information disclosed in this MD&A.

Analysis of Results for the Year Ended December 31, 2007

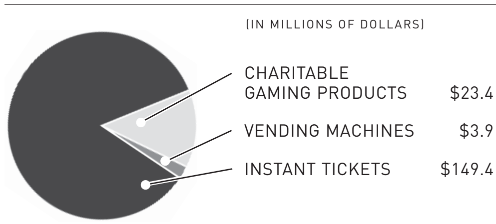
SALES

During the year ended December 31, 2007, ("Fiscal 2007"), Pollard LP achieved sales of $164.5 million, compared to $176.7 million in the year ended December 31, 2006, ("Fiscal 2006"). Factors impacting the $12.2 million sales difference were:

PRODUCT LINE SALES FISCAL 2007



PRODUCT LINE SALES FISCAL 2006



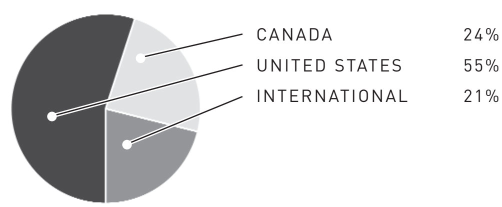
STRENGTHENING OF THE CANADIAN DOLLAR

During Fiscal 2007, Pollard LP generated approximately 69% of its revenue in U.S. dollars including a significant portion of international sales which are priced in U.S. dollars. During 2007 the actual Canadian dollar value versus the U.S. dollar was converted on average at $1.0802, compared to the average exchange rate of $1.1293 during Fiscal 2006. This 4.3% change in value resulted in an approximate decline of $5.2 million in revenue relative to Fiscal 2006.

CHANGE IN SALES VOLUME

The volume of instant ticket sales was lower by approximately 6% in Fiscal 2007 compared to Fiscal 2006. During the first half of 2007 reorders for certain laminated and pouched products introduced to the market place in 2006 were delayed until later in 2007. The timing patterns of the orders for a number of our core group of lottery customers resulted in lower sales during the early part of 2007. In addition, production difficulties in the fourth quarter of 2007 impacted negatively on the sales volume for that quarter. The volumes of pull-tab tickets decreased by approximately 10.2% due partially to a reduction in certain lottery pull-tab orders. Bingo paper volumes remained consistent. In contrast, our Lottery Management Services volume increased over Fiscal 2006 due to a full year providing services to the Maryland Lottery in Fiscal 2007.

SALES BREAKDOWN FISCAL 2007



SALES BREAKDOWN FISCAL 2006

COST OF SALES AND GROSS PROFIT

Cost of sales was $130.5 million in Fiscal 2007 compared to $136.5 million in Fiscal 2006 reflecting the lower sales in 2007, and the lower U.S. dollar denominated costs due to the strengthening of the Canadian dollar relative to the U.S. dollar.

Gross profit decreased from $40.2 million in Fiscal 2006 to $34.0 million in Fiscal 2007. The reduction in gross profit and gross margin reflects the lower sales and production volumes experienced in the first three quarters of the year and certain production difficulties encountered in the fourth quarter (see "Analysis of results for the Period October 1, 2007 to December 31, 2007, – Cost of sales and gross margin"). The gross profit margin percentage decreased to 20.7% in Fiscal 2007 from 22.8% in Fiscal 2006.

SELLING AND ADMINISTRATION EXPENSES

Selling and administration expenses were $19.1 million in Fiscal 2007 compared to $19.3 million in Fiscal 2006.

As a percentage of sales, 2007 selling and administration expenses were 11.6% compared to 10.9% in 2006 due to lower sales.

FOREIGN EXCHANGE

Foreign exchange gain increased to $5.0 million in Fiscal 2007, compared to a gain of $3.7 million in Fiscal 2006 as a result of the ongoing foreign exchange hedging program in light of the strengthening Canadian dollar.

EXTRAORDINARY GAIN

On December 24, 2007 Pollard LP purchased 100% of the outstanding shares of Nacako Sdn Bhd ("Nacako"), a Malaysian company, for a nominal amount. Nacako provides certain administrative and support services to lotteries in Malaysia and south-east Asia. The net financial assets acquired exceeded the purchase price, resulting in an extraordinary gain of $0.6 million.

EBITDA

EBITDA was $23.6 million in Fiscal 2007, compared to $29.9 million in Fiscal 2006. The $6.3 million decrease in EBITDA was due primarily to the reduction in gross profit, offset partially by reductions in selling and administration expense, employee profit sharing expense and an extraordinary gain. The EBITDA margin was 14.3% in Fiscal 2007, compared to 16.9% in Fiscal 2006.

AMORTIZATION

Amortization includes amortization of property and equipment, other assets, primarily patents, and deferred financing costs, and totaled $6.4 million during Fiscal 2007, compared to $6.9 million during Fiscal 2006. Amortization was lower by $0.5 million in Fiscal 2007, due to certain equipment becoming fully depreciated near the beginning of 2007.

INTEREST

Interest expense increased from $2.6 million in Fiscal 2006 to $2.7 million in Fiscal 2007, primarily due to the increased amount of bank indebtedness outstanding during Fiscal 2007.

MARK-TO-MARKET GAIN ON FOREIGN CURRENCY CONTRACTS

A non-cash gain of $6.3 million was recorded in Fiscal 2007, reflecting an increase in the value of the foreign currency contracts used to hedge our net U.S. dollar exposure, compared to a non-cash loss of $4.0 million recognized in Fiscal 2006. The significant strengthening of the Canadian dollar relative to the U.S. dollar during 2007 generated a higher gain due to the fixed exchange rates contained in the hedged forward contracts.

EMPLOYEE PROFIT SHARING

Employee profit sharing costs decreased by $0.5 million from $2.2 million in Fiscal 2006, to $1.7 million in Fiscal 2007. The change was due to a decrease in the income subject to employee profit sharing in Fiscal 2007.

INCOME TAXES

The effective income tax rate for Fiscal 2007, was (2.0)% compared to 9.3% in Fiscal 2006. The lower rate compared to the statutory rate reflects that only Pollard LP's incorporated subsidiaries are taxable entities.

The effective income tax rate is negative in Fiscal 2007, due to the differences relating to the foreign exchange impact of Canadian dollar denominated debt in the U.S. subsidiaries.

NET INCOME

Net income increased by $8.4 million to $23.4 million in Fiscal 2007, from $15.0 million in Fiscal 2006, due to the factors discussed previously. Net income increased due to higher mark-to-market gains on foreign currency contracts (gain of $6.3 million in 2007 compared to a loss of $4.0 million in 2006), increases in foreign exchange gains of $1.3 million, $0.6 million extraordinary gain and $2.0 million in lower income taxes, partially offset by the $6.2 million in decreased gross profit.

ADJUSTED DISTRIBUTABLE CASH AND ADJUSTED DISTRIBUTABLE CASH PER UNIT

Pollard LP generated $18.2 million in Adjusted Distributable Cash, or $0.7709 per unit for Fiscal 2007. This falls short of the target of $0.9504. The decrease in Adjusted Distributable Cash over the target is due primarily to a decreased level of EBITDA caused by lower gross profit.

Analysis of Results for the Period October 1, 2007 to December 31, 2007

(FOURTH QUARTER OF 2007)

Selected Financial Information

(MILLIONS OF DOLLARS)	THREE MONTHS ENDED DECEMBER 31, 2007	THREE MONTHS ENDED DECEMBER 31, 2006
	(UNAUDITED)	(UNAUDITED)
Sales	$39.7	$42.3
Cost of Sales	34.2	33.7
Gross Profit	5.5	8.6
Expenses:		
Selling and administration	4.8	4.9
Interest	0.7	0.7
Foreign exchange gain	(1.6)	(0.8)
Mark-to-market loss on foreign currency contracts	1.4	4.2
Other	(0.1)	(0.2)
Income (loss) before under noted	0.3	(0.2)
Employee profit sharing plan	0.2	0.4
Income (loss) before income taxes and extraordinary gain	0.1	(0.6)
Income taxes:		
Current	0.3	0.3
Future (recovery)	(0.2)	0.3
	0.1	0.6
Extraordinary gain	0.6	-
Net income (loss)	$0.6	($1.2)
Adjustments:		
Interest	$0.7	$0.7
Unrealized foreign exchange loss (gain)	(0.7)	0.3
Mark-to-market loss on foreign currency contracts	1.4	4.2
Income taxes	0.1	0.6
Amortization	1.6	1.6
Other	-	(0.1)
EBITDA	3.7	6.1
Less:		
Cash taxes	(0.3)	(0.3)
Interest	(0.7)	(0.7)
Maintenance capital expenditures	(0.2)	(0.2)
Other	-	0.1
Cash Available for Distribution (before Fund expenses)	2.5	5.0
Expenses of the Fund	(0.1)	(0.1)
Adjusted Distributable Cash	$2.4	$4.9

SALES

During the three months ended December 31, 2007, Pollard LP achieved sales of $39.7 million, compared to $42.3 million in the three months ended December 31, 2006. Two main factors impacted sales resulting in the $2.6 million sales decrease:

STRENGTHENING OF THE CANADIAN DOLLAR

During the three months ended December 31, 2007, Pollard LP generated approximately 66% of its revenue in U.S. dollars. The actual Canadian dollar value during the three months ended December 31, 2007, versus the U.S. dollar was $0.9875, compared to $1.1233 during the three months ended December 31, 2006. This 12.1% change in value resulted in an approximate decline of $3.6 million in revenue relative to the three months ended December 31, 2006.

INCREASE IN SALES VOLUME

Overall instant ticket and related services volume for the period was higher by approximately 6% in the fourth quarter of 2007, compared to the fourth quarter of 2006. Pull-tab volume of sales generated during the quarter was 1.6% higher than the comparable quarter of 2006. Bingo paper volumes were 4% lower in the fourth quarter of 2007, when compared to the fourth quarter of 2006. The volume changes resulted in a net increase in sales of approximately $1.0 million as instant ticket and related services represent approximately 87% of revenue.

COST OF SALES AND GROSS MARGIN

Cost of sales was $34.2 million in the three months ended December 31, 2007, compared to $33.7 million in the three months ended December 31, 2006.

Gross profit decreased from $8.6 million to $5.5 million in the three months ended December 31, 2007. The gross profit margin percentage decreased to 13.9% from 20.3% in the three months ended December 31, 2006.

Due to significant growth in order volumes from both existing and new customers, the company has been ramping up production levels during the third and fourth quarters to meet the increased demand. This involved substantially increased costs for labour and overheads to put the resources in place for these higher production levels. During the fourth quarter of 2007 actual production volumes for instant tickets fell short of planned amounts, despite the higher costs that were in place. Production levels were negatively impacted by a number of factors, including delays in implementation of the automated finishing and packaging line and a more challenging mix of games and average run lengths.

The confirmed sales orders were available to produce; however, the production difficulties resulted in these orders being delayed until later periods.

The shortfall in production coupled with the higher level of production input costs resulted in a significant reduction in our gross margin percentage. A number of the problems experienced in the fourth quarter were specific to certain individual games and are not expected to recur. Overall production volumes are expected to return to targeted levels in the latter part of the first quarter of 2008.

SELLING AND ADMINISTRATION EXPENSES

Selling and administration expenses were $4.8 million in the three months ended December 31, 2007, compared to $4.9 million in the three months ended December 31, 2006. As a percentage of sales Fiscal 2007 was higher than Fiscal 2006, 12.1% versus 11.6% due to lower sales.

FOREIGN EXCHANGE GAIN

Foreign exchange gain was $1.6 million in the three months ended December 31, 2007, compared to $0.8 million in the three months ended December 31, 2006. Within the foreign exchange gain are unrealized gains of $0.8 relating to the foreign exchange gain on U.S. dollar denominated debt, $1.6 million in realized gains due to our hedge strategy, offset by a realized loss of $0.8 million in the reduced value in U.S. dollar denominated accounts receivable.

EBITDA

EBITDA was $3.7 million in the three months ended December 31, 2007, compared to $6.1 million in the three months of 2006. EBITDA margins were 9.3% in the three months ended December 31, 2007, compared to 14.4% achieved in the three months ended December 31, 2006. The decrease in EBITDA margin was primarily due to a much lower gross margin percentage. On a quarter-to-quarter basis the EBITDA margin will fluctuate based on sales level and production mix.

AMORTIZATION

Amortization includes amortization of property and equipment, other assets, primarily patents, and deferred financing costs which totaled $1.6 million during the three months ended December 31, 2007, which is consistent with the three months ended December 31, 2006.

INTEREST

Interest expense remained consistent at $0.7 million in both quarters as the amount of debt outstanding and interest rates remained steady.

MARK-TO-MARKET LOSS ON FOREIGN CURRENCY CONTRACTS

A non-cash loss of $1.4 million was recorded in the three months ended December 31, 2007, compared to a non-cash loss of $4.2 million recognized in the comparable period of 2006 reflecting the change in value of the foreign currency contracts used to hedge our net U.S. dollar exposure.

EMPLOYEE PROFIT SHARING

Employee profit sharing costs decreased from $0.4 million in the three months ended December 31, 2006, to $0.2 million in the three months ended December 31, 2007, due to a reduction in the income subject to profit sharing.

INCOME TAXES

The income tax expense decreased to $0.1 million in the three months ended December 31, 2007, compared to $0.6 million during the three months ended December 31, 2006. The decrease in the income tax expense was due to less taxable income earned in Pollard LP's incorporated subsidiaries in the three months ended December 31, 2007.

EXTRAORDINARY GAIN

On December 24, 2007 Pollard LP purchased 100% of the outstanding shares of Nacako Sdn Bhd ("Nacako"), a Malaysian company, for a nominal amount. Nacako provides certain administrative and support services to lotteries in Malaysia and south-east Asia. The net financial assets acquired exceeded the purchase price, resulting in an extraordinary gain of $0.6 million.

NET INCOME (LOSS)

In the three months ended December 31, 2007, $0.6 million was recorded as net income in comparison to a net loss of $1.2 million in the three months ended December 31, 2006. This change is primarily due to a reduction in the mark-to-market loss on foreign currency contracts in the three months ended December 31, 2007, higher foreign exchange gains, lower income taxes and an extraordinary gain, partially offset by lower gross profit.

ADJUSTED DISTRIBUTABLE CASH AND ADJUSTED DISTRIBUTABLE CASH PER UNIT

Pollard LP generated $2.4 million in Adjusted Distributable Cash, or $0.1001 per unit for the three months ending December 31, 2007. This falls short of the target of $0.2376 for the three months. The decrease in Adjusted Distributable Cash compared to the target is due primarily to the decrease in gross profit. Adjusted Distributable Cash will vary on a quarter-to-quarter basis due to changes in the product mix and short term variation in the order quantities from customers.

Quarterly Information

(UNAUDITED)
(MILLIONS OF DOLLARS)

	Q4 2007	Q3 2007	Q2 2007	Q1 2007	Q4 2006	Q3 2006	Q2 2006	Q1 2006
Sales	39.7	42.1	40.6	42.1	42.3	42.9	43.3	48.2
EBITDA	3.7	7.6	5.9	6.4	6.1	7.6	8.1	8.1
Net Income (Loss)	0.6	9.4	10.0	3.4	(1.2)	3.5	8.3	4.4

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

Sales in Q1 2006 were high due to the timing of a large sale of certain instant ticket lottery products. Net Income was higher in Q2 2006 and lower in Q4 2006 due to a non-cash gain on mark-to-market foreign currency contracts in Q2 and non-cash loss in Q4.

Sales in Q4 2007 were low due to the strengthening of the Canadian dollar relative to the U.S. dollar. Production difficulties incurred in the fourth quarter of 2007 resulted in the lower level of EBITDA. Q4 net income was lower due to the lower EBITDA and a mark-to-market loss on our foreign currency contracts.

Liquidity and Capital Resources

CASH PROVIDED BY OPERATING ACTIVITIES

For Fiscal 2007, cash flow provided by operating activities was $20.3 million, compared to cash flow provided by operations of $23.5 million for Fiscal 2006. Net income in Fiscal 2007, was higher than Fiscal 2006, however, included in Fiscal 2007, was a large non-cash gain related to the mark-to-market adjustment on foreign currency contracts. Fiscal 2006 net income included a large non-cash loss relating to the mark-to-market adjustment.

Changes in the non-cash component of working capital provided an increase in cash flow from operations of $1.0 million for Fiscal 2007, compared to a decrease in cash flow during Fiscal 2006, of $1.7 million. The net use of cash in Fiscal 2006, was primarily the result of a net increase in inventory levels due to new contracts with customers. The net increase in cash in Fiscal 2007, is primarily the result of lower levels of inventory due to lower production volumes in the fourth quarter.

CASH USED IN INVESTING ACTIVITIES

In Fiscal 2007, cash used in investing activities was $4.3 million (net) including $0.9 million in maintenance capital expenditures, $5.1 million in growth capital expenditures and $0.1 million increase in other assets. Cash provided by investing activities also included $1.8 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.

Growth capital expenditures included the completion of our automated finishing and packaging line and a new pouching line. Maintenance capital expenditures included more modifications to our baseprinting presses and miscellaneous manufacturing and information technology expenditures.

During the first quarter of 2008 the company is expected to purchase the land and building of the Council Bluffs, Iowa operation for US$3.3 million. In addition, commitments to purchase the components of a new instant ticket printing line for a total of US$8.5 million have commenced. The new instant ticket press is anticipated to be delivered during Q3 2008.

During Fiscal 2006, additions to property and equipment were $3.5 million, which included new equipment for our pull-tab and bingo paper manufacturing lines, the start of our automated finishing and packaging line, manufacturing equipment upgrades and changes to our facilities to accommodate our new production equipment.

CASH USED IN FINANCING ACTIVITIES

Cash used in financing activities was $15.6 million in Fiscal 2007, representing the distributions paid to Unitholders of $22.6 million offset by an increase in bank indebtedness.

During Fiscal 2006, cash used in financing activities was $22.6 million representing the distributions paid.

As at December 31, 2007, Pollard LP had $2.1 million in cash and cash equivalents and available operating lines of credit of approximately $17.6 million, which is available to be used to meet future working capital requirements, contractual obligations, capital expenditures and distributions.

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

For Fiscal 2007 the distributions declared per Class A, Class B and Class C LP Units were $0.9504. Total distributions declared were $22.6 million. Distributions totaling $1.9 million were accrued as at December 31, 2007, and were paid to the holders of the Class A, Class B and Class C LP Units on January 15, 2008.

PRODUCTIVE CAPACITY

Management has defined productive capacity as the level of operations necessary to maintain the current distributable cash target of $0.9504 per fully-diluted LP Unit or $22.4 million on an annualized basis. Due to varying factors implicit in the nature of the lottery industry and the instant ticket market, productive capacity can best be measured through a financial output such as distributable cash. A number of factors impact the levels of distributable cash including physical plant capacity, machine capacity, nature of product and service offerings produced and mix of customers. Adjusted Distributable Cash generated since going public, August 5, 2005, is $51.6 million and Distributions from that time were $53.8 million. The payout ratio, since August 5, 2005, is 104.3%. Changes to productive capacity since August 5, 2005, have occurred primarily through expenditures on fixed assets and improved processes and other internal improvement measures, partially offset by ongoing competitive pressures and impacts of changes in foreign exchange relationships. 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 capital expenditure budget and rigorous formal approval process, flexible individual customer management relationships and structured maintenance programs throughout all of the facilities.

An important component to managing and growing productive capacity is the management of certain intangible assets, including customer contracts and relationships, patents, computer software, 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 to 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.

For example capital expenditures related to the automated finishing and packaging line were incurred and completed in 2007, however the total impact of reduced costs and increased efficiency will not be realized until 2008.

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 predominantly government agencies, which results in regular payments. These factors assist in a reasonably quick turnover in net working capital. There is a limited number of individual customers, and therefore net investment in working capital is managed on an individual customer by customer basis, without the need for company wide benchmarks.

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

	DECEMBER 31, 2007	DECEMBER 31, 2006
Working Capital	$17.0	$26.7
Total Assets	$107.1	$104.6
Total Long Term Liabilities	$46.9	$49.6

CREDIT FACILITIES

Pollard LP's credit facilities include a demand operating facility and a committed term bank loan facility. The demand operating facility includes up to $20.0 million for its Canadian operations and up to $7.9 million (US$8.0 million) for its U.S. subsidiaries. The committed term bank loan facility provides loans of up to $32.0 million for its Canadian operations and up to $14.6 million (US$14.8 million) for its U.S. subsidiaries. Borrowings under these credit facilities bear interest at fixed and floating rates based on Canadian and U.S. prime bank rates, banker's acceptances or LIBOR. At December 31, 2007, the balance outstanding under the demand operating facilities, other than letters of credit of $2.9 million, was $7.4 million and the committed term bank loan facilities were fully drawn.

At December 31, 2007, Pollard LP had entered into interest rate swaps to fix the interest rate on approximately 90% of the outstanding long-term debt.

Pollard LP's credit facilities are secured by a first security interest in all of the present and after acquired property of Pollard LP and its operating subsidiaries. The term bank loan facility can be prepaid without penalties. Under the terms of the agreement, the term facility is committed for a one-year period, renewable August 31, 2008. If the term facility is not renewed, the term loans are repayable two years after the term loan expiry date. As such, each term facility has effectively a three-year term expiring August 31, 2010, 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, 2007, 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 5, 2008, December 31, 2007, and December 31, 2006, 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	$46.5	–	$46.5	–	–
Interest on Long-term debt[1]	$6.7	$2.5	$4.2	–	–
Operating leases	$1.5	$0.4	$0.4	$0.2	$0.5
Total	$54.7	$2.9	$51.1	$0.2	$0.5

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

During the year ended December 31, 2006, based on cash available for distribution per LP Unit exceeding the base threshold, a provision for LTIP awards of $0.2 million was accrued and subsequently paid.

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, 2007, the aggregate fair value of the assets of Pollard LP's defined benefit pension plans was $13.8 million, while the accrued benefit plan obligation was $18.2 million, resulting in an aggregate deficit of $4.4 million. Pollard LP's total annual funding contribution for all pension plans in 2008 is expected to be approximately $1.8 million, not materially different from 2007, 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 above, Pollard LP has no other off-balance sheet arrangements.

Related Party Transactions

During the year, Pollard Amalco Inc. paid to Pollard Banknote LP $0.04 million (2006 – $0.04 million) in 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, 2007, these reimbursed costs amounted to $0.2 million (2006 - $0.2 million).

Critical Accounting Policies and Estimates

The preparation of the financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenue and expenses during the reporting period. Management of Pollard LP regularly reviews its estimates and assumptions based on historical experience and various other assumptions that it believes would result in reasonable estimates given the circumstances. Actual results could differ from those estimates under different assumptions. The following is a discussion of accounting policies which require significant management judgment and estimation.

GOODWILL:

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

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

FINANCIAL INSTRUMENTS:

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

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

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

INCOME TAXES:

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

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

LEASES:

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

Pollard LP's subsidiary's leasing operations consist principally of the leasing of Instant Ticket Vending Machines (ITVM) with state lotteries and Pull-tab Vending Machines (PTVM) with various private establishments. These leases are classified as sales-type leases. The ITVM and PTVM leases have terms of five and four years, respectively. 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

FINANCIAL INSTRUMENTS:

Effective the commencement of its 2007 fiscal year, Pollard LP has adopted the Canadian Institute of Chartered Accountants (CICA) Handbook Section 1530, *Comprehensive Income*, Section 3251, *Equity*, Section 3855, *Financial Instruments - Recognition and Measurement*, Section 3861, *Financial Instruments - Disclosure and Presentation* and Section 3865, *Hedges*. These new Handbook sections, which apply to fiscal years beginning on or after October 1, 2006, provide comprehensive requirements for the recognition and measurement of financial instruments, as well as standards on when and how hedge accounting may be applied.

Handbook Section 1530 also establishes standards for reporting and displaying comprehensive income.

ACCOUNTING CHANGES:

In January 2007, the CICA revised Handbook Section 1506, *Accounting Changes*, effective for annual and interim periods beginning on or after January 1, 2007. Section 1506 prescribes the criteria for changing accounting policies, changes in accounting estimates and correction of errors. This section recommends voluntary changes to accounting policies are to be applied retrospectively unless it is impractical to do so. Section 1506 also requires changes in estimates to be applied prospectively, while prior period's errors are to be corrected retrospectively. This is not expected to have material impact on the Partnership's financial statements.

Future Changes in Accounting Policies

The Partnership has adopted the following new accounting standards on January 1, 2008.

CAPITAL DISCLOSURES AND FINANCIAL INSTRUMENTS – PRESENTATION AND DISCLOSURE

The CICA issued three new accounting standards: Section 1535 *Capital Disclosures*, Section 3862, *Financial Instruments – Disclosures*, and Section 3863, *Financial Instruments – Presentation*. These new standards are effective for fiscal years beginning on or after October 1, 2007. The Partnership is in the process of evaluating the disclosure and presentation requirements of the new standards.

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

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

INVENTORIES

The CICA issued Section 3031, *Inventories*, which will replace Section 3030, *Inventories*, and is effective for fiscal years beginning on or after July 1, 2007. Section 3031 provides more extensive guidance on measurement, and expands disclosure requirements to increase transparency. The Partnership's accounting policy for inventories is consistent with measurement requirements in the new standard and therefore it is not anticipated that the results of the Partnership will be impacted, however, additional disclosure will be required in relation to inventories carried at net realizable value and the amount of any write-downs of inventories.

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.

INABILITY TO SUSTAIN SALES OR EBITDA MARGINS

Pollard Banknote'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 Banknote's costs of goods or operating costs increase, or other manufacturers of gaming products could compete more favourably with it, Pollard Banknote 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 KEY PRODUCTS

Instant lottery tickets and related services accounted for approximately 85% of Pollard LP's Fiscal 2007 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.

COMPETITION

The instant ticket and charitable gaming business is highly competitive, and Pollard LP faces competition from a number of domestic and foreign instant ticket manufacturers and other competitors. Pollard LP currently has two instant ticket competitors in North America: Scientific

Games International, Inc. and Creative Games International, Inc. Charitable gaming competitors include a number of manufacturers such as Arrow International, Inc., International Gamco, Inc. and Universal Manufacturing, Inc.

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.

DEPENDENCE ON MAJOR CUSTOMERS

Pollard LP's 10 largest customers accounted for approximately 60% of its revenue during Fiscal 2007. Pollard LP's largest customer accounted for 10% of Pollard LP's revenues during Fiscal 2007. 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 RATES

A significant portion of Pollard LP's revenues and expenses, principally related to its U.S. operations, 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 foreign currencies could have a material effect on the results of Pollard LP.

Pollard LP's distributions to partnership Unitholders are denominated in Canadian dollars. As a result, the distributions will be exposed to currency exchange rate risk. For the purposes of financial reporting by Pollard LP, 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.

Pollard LP has in place hedging arrangements to mitigate exchange rate fluctuation risk, but there can be no assurance that changes in the currency exchange rate 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.

LICENSING AND REGULATORY REQUIREMENTS

Pollard LP is subject to regulation in most jurisdictions in which its bingo, bingo related products (including pull-tabs) are sold or used by persons or entities licensed to conduct gaming activities. The gaming regulatory requirements vary from jurisdiction to jurisdiction and licensing, other approval or finding of suitability processes with respect to Pollard LP, its personnel and its products, can be lengthy and expensive. Many jurisdictions have comprehensive licensing, reporting and operating requirements with respect to the sale and manufacture of bingo and bingo related products, including bingo paper and pull-tab tickets. These licensing requirements have a direct impact on the conduct of the day-to-day operations of Pollard LP. Generally, gaming regulatory authorities may deny applications for licenses, other approvals or findings of suitability for any cause they may deem reasonable. There can be no assurance that Pollard LP, its products or its personnel will receive or be able to maintain any necessary gaming licenses, other approvals or findings of suitability. The loss of a license in a particular jurisdiction will prohibit Pollard LP from selling products in that jurisdiction and may prohibit Pollard LP from selling its products in other jurisdictions. The loss of one or more licenses held by Pollard LP could have an adverse effect on the business.

Certain jurisdictions require extensive personal and financial disclosure and background checks from persons and entities beneficially owning a specific percentage (typically five percent or more) of a vendor's securities. The failure of beneficial owners of Pollard LP's securities to submit to background checks and provide such disclosure could result in the imposition of penalties upon these beneficial owners and could jeopardize the award of a lottery contract to Pollard LP or provide grounds for termination of an existing lottery contract.

INCOME AND OTHER TAXES

Pollard LP is subject to capital taxes and its incorporated subsidiaries are subject to Canadian federal and U.S. federal, state and withholding taxes. As taxing regimes change their tax basis and rates or initiate reviews of prior tax returns, Pollard LP could be exposed to increased costs of taxation, which would reduce the amount of funds available to distribute to Unitholders.

INTELLECTUAL PROPERTY

Pollard LP's commercial success depends, in part, on its ability to secure and protect intellectual property rights that are important to its business, including patent, trademark, copyright, and trade secret rights, to operate without infringing third party intellectual property rights and to avoid having third parties circumvent the intellectual property rights that Pollard LP owns or licenses. In particular, the patents and trade marks Pollard LP owns or licenses may not be valid or enforceable. In addition, Pollard LP cannot be certain that its proprietary technology affords a competitive advantage, does not infringe third party rights, or will not need to be altered in response to competing technologies. Pollard LP also cannot be certain that technologies developed in the future will be the subject of valid and enforceable intellectual property rights.

In addition, litigation may be necessary to determine the scope, enforceability and validity of third party intellectual property rights or to establish Pollard LP's intellectual property rights. Regardless of merit, any such litigation could be time consuming and expensive, divert management's time and attention, subject Pollard LP to significant liabilities, require Pollard LP to enter into costly royalty or licensing agreements, or require Pollard LP to modify or stop using intellectual property that it owns or licenses.

INTEREST RATES

Pollard LP has certain floating rate loans and may be negatively impacted by increases in interest rates.

Pollard LP has in place hedging arrangements to mitigate 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.

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

RISK EXPOSURE:

MARKET RISK:

Pollard LP sells a significant portion of its products to the United States and to international customers where sales are denominated in U.S. dollars. In addition, Pollard LP operates two manufacturing sites in the U.S. and purchases a significant portion of its goods denominated in U.S. dollars. These activities give rise to exposure to market risk from changes in foreign exchange rates. Foreign currency contracts are used to mitigate these risks.

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.

RISK MANAGEMENT:

FOREIGN CURRENCY CONTRACTS:

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.

In order to manage Pollard LP's net 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 $3.3 million for 24 consecutive months from January 2008, to December 2009. The foreign currency contracts at December 31, 2007, are recognized in the balance sheet and measured at fair value, which at December 31, 2007, represented an asset of $6.4 million (December 31, 2006 – $0.1 million). As at December 31, 2007, a $0.01 strengthening in the value of the Canadian dollar in relation to the U.S. dollar over the course of a twelve month period would reduce sales by approximately $1.1 million, reduce cost of goods sold by approximately $0.5 million and not have a material impact on EBITDA or earnings due to the hedge program in place.

INTEREST RATE SWAPS:

Pollard LP uses interest rate swap agreements in order to fix interest rates on approximately 90% of long-term debt. The interest rate swap agreement entitles Pollard LP and one of its subsidiaries to receive interest at floating rates and pay interest at a fixed rate. As a result, a 1% change in interest rates would not have a material impact on the financial results of Pollard LP.

Outlook

The 2008 outlook for lottery markets is positive, with ongoing growth in retail sales of instant tickets in both North America and internationally expected. 2007 data suggests a growth rate in retail sales of instant tickets in the 4-5% range, slightly lower than the 8-9% level witnessed for many years. This is partially a reflection of fewer new lottery start-ups, as most jurisdictions in North America now have established lotteries. The continued demand from state and provincial governments for revenue, however, will continue to result in opportunities for lotteries to aggressively grow their businesses, particularly in the instant ticket product line.

Factors historically used by lotteries to grow their instant ticket sales, both in North America and internationally, will continue to be refined and improved throughout 2008 and beyond. Increased prize payout percentages, higher price points, frequent introduction of new games, interesting and varied play formats and increasing use of branded or licensed properties are utilized by lotteries in varying degrees to expand the instant ticket business. The past success of the instant ticket product line has varied by lottery jurisdiction, presenting additional opportunities for continued market growth through more effective application of these factors in all jurisdictions.

Many of our key customer contracts were extended during 2007 including New Jersey, Western Canada Lottery Corporation, Massachusetts and Arizona. Important new contracts or renewals were awarded by La Française des Jeux (France National Lottery), Minnesota, Connecticut, Mifal Hapayis (Israeli National Lottery) and Denmark, providing a strong foundation of customer contacts to grow our business. We will bid strategically on new opportunities and requests for proposals in order to maximize profit and distributable cash.

We continue to see impressive organic growth from many of our core existing lottery customers including Ontario Lottery and Gaming Corporation ("OLG"), Western Canada Lottery Corporation, Maryland and Taiwan and the success of our clients' operations are reflected in increased sales and opportunities for Pollard.

The first quarter of 2008 will see a continuation of lower production volumes due in part to the scheduled annual maintenance shutdown in January at our Ypsilanti plant. As well the mix of a high number of short run games witnessed in the fourth quarter of 2007 continued into the early part of the first quarter of 2008. This lower production will result in an expected shortfall in our distributable cash target for the quarter. However, we believe the continuing improvement in our production processes resulting in increases in our production output, combined with a return to a more traditional mix of games and run length sizes, will allow us to return to generating distributable cash consistent with, or above, our existing target during the remainder of 2008.

Notwithstanding our low production in the fourth quarter of 2007 and the start of 2008, our current sales order book for 2008 remains full, based on our existing clients. In addition, we believe there remain additional sales opportunities, both with existing and new customers, which we will be able to pursue more aggressively once we ease our current capacity constraints and production inefficiencies.

In response to these constraints and to help ease some of the production challenges experienced during 2007, we have initiated the acquisition of a new press line. This new "all-in-line press" will add significant new capacity to our existing manufacturing capabilities and improve our flexibility in producing our clients' work. In addition, the increased efficiency of the new press will help reduce our ongoing costs of production. The estimated US$8.5 million purchase is expected to be delivered in the third quarter of 2008, with live production beginning later that quarter. The full impact of the new press capacity and increased efficiency is expected in Fiscal 2009.

2007 witnessed an increase in the number of licensed properties Pollard added to its portfolio and sales of this product line, including the related merchandising, are an important segment in our growth strategy. A number of comprehensive products and services are included in our licensed properties offerings including prize package fulfillment services, second chance drawing management and provision of merchandise prize packages. We will aggressively market these products to the lottery industry and increase our portfolio of key properties during 2008.

Our newest facility has recently opened in Sault Ste. Marie, Ontario, providing finishing and packaging services for the Ontario Lottery and Gaming Corporation under our ten-year contract awarded in the fall of 2006.

Lotteries increasingly are looking at outsourcing various parts of their operations which provides opportunities to increase our Lottery Management Services. Distribution, warehousing, marketing and retail support are all services that we currently offer to select customers and will continue to be marketed to receptive lotteries.

During the first quarter of 2008 the partnership is expected to purchase the building housing our Council Bluffs, Iowa charitable gaming operation. This US$3.3 million purchase will eliminate our existing rent and provide a positive impact on our distributable cash even after consideration of financing charges. A number of other cost improvements have been initiated in our charitable gaming business and we believe this will improve the financial performance in this area.

2008 will see a number of ongoing manufacturing initiatives to both increase our capacity as well as improve our cost structure in addition to the new press line. Although slower coming than we had anticipated, we are achieving steady improvements in the efficiency of our new automated finishing and packaging line and we will be able to reap the long-term benefits in output and reduced costs once fully functioning.

Pollard Banknote will continue to review and investigate possible acquisition targets within the lottery and charitable gaming industries. However, potential acquisitions must be accretive to the Unitholders and as such will only be completed where financial and strategic objectives are achieved.

Developments relating to the Tax Fairness Plan will be monitored and as additional legislation and regulations are enacted, particularly in regards to tax efficient means to revert to corporate status, Pollard Banknote will develop specific strategic responses at that time. The introduction of taxation under this legislation will not apply to the Pollard Banknote Income Fund until 2011.

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

Disclosure Controls and Procedures

Under Multilateral Instrument 52-109, "Certification of Disclosure in Issuers' Annual and Interim Filings," issuers are required to document the conclusions of the Chief Executive Officer and Chief Financial Officer (the "Certifying Officers") regarding the 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 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 of the internal controls over financial reporting. The Fund's management, with the participation of the Certifying Officers of the Fund, have concluded that the design of the internal controls over financial reporting as defined in Multilateral Instrument 52-109 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, 2007 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, 2007, is available on SEDAR at www.sedar.com.

MANAGEMENT'S REPORT

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

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

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

John Pollard
CO-CHIEF EXECUTIVE OFFICER

Robert Rose
CHIEF FINANCIAL OFFICER

February 22, 2008

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, 2007 and 2006 and the consolidated statements of income, comprehensive income, 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, 2007 and 2006 and the results of its operations and its cash flows for the two years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP
CHARTERED ACCOUNTANTS

Winnipeg, Canada
February 22, 2008

POLLARD BANKNOTE INCOME FUND

Consolidated Statements of Income

(IN THOUSANDS OF DOLLARS, EXCEPT FOR UNIT AMOUNTS)
YEARS ENDED DECEMBER 31, 2007 AND 2006

	2007	2006
Equity income before extraordinary gain from investment in Pollard Holdings Limited Partnership (note 7)	$ 4,267	$ 2,197
Administrative expenses	(168)	(198)
Earnings before income taxes and extraordinary gain	4,099	1,999
Future income tax reduction (note 8)	418	–
Equity in extraordinary gain from investment in Pollard Holdings Limited Partnership (note 7)	166	–
Net income	$ 4,683	$ 1,999
Basic and diluted earnings per unit	$ 0.75	$ 0.32
Weighted average number of Fund Units outstanding	6,285,700	6,285,700

POLLARD BANKNOTE INCOME FUND

Consolidated Statements of Comprehensive Income

(IN THOUSANDS OF DOLLARS)
YEARS ENDED DECEMBER 31, 2007 AND 2006

	2007	2006
Net income	$ 4,683	$ 1,999
Other comprehensive loss:		
Fund's proportionate share of other comprehensive loss from investment in Pollard Holdings Limited Partnership (note 9)	(760)	(18)
Comprehensive income	$ 3,923	$ 1,981

See accompanying notes to consolidated financial statements.

Consolidated Balance Sheets

(IN THOUSANDS OF DOLLARS)
DECEMBER 31, 2007 AND 2006

	2007	2006
Assets		
Distributions receivable	$ 498	$ 498
Prepaid expenses	22	25
Investment in Pollard Holdings Limited Partnership (note 4)	55,658	58,034
Future income taxes (note 8)	418	–
	$ 56,596	$ 58,557
Liabilities		
Accounts payable	$ 24	$ 30
Distributions payable to unitholders (note 5)	498	498
Unitholders' Equity		
Unitholders' equity (note 6)	56,928	58,219
Accumulated other comprehensive loss (note 9)	(854)	(190)
	56,074	58,029
Commitments and contingencies (note 10)		
	$ 56,596	$ 58,557

See accompanying notes to consolidated financial statements.

On behalf of the Board of Trustees:

D.C. Crewson
TRUSTEE

Gary Filmon
TRUSTEE

POLLARD BANKNOTE INCOME FUND

Consolidated Statements of Unitholders' Equity

(IN THOUSANDS OF DOLLARS)
YEARS ENDED DECEMBER 31, 2007 AND 2006

	2007	2006
Unitholders' equity, beginning of year	$ 58,219	$ 62,194
Net income	4,683	1,999
Distributions declared (note 5)	(5,974)	(5,974)
Unitholders' equity, end of year	$ 56,928	$ 58,219

See accompanying notes to consolidated financial statements.

POLLARD BANKNOTE INCOME FUND

Consolidated Statements of Cash Flows

(IN THOUSANDS OF DOLLARS)
YEARS ENDED DECEMBER 31, 2007 AND 2006

	2007	2006
Cash provided by (used in):		
Operating activities:		
Net income	$ 4,683	$ 1,999
Items not involving cash:		
Equity income from investment in Pollard Holdings Limited Partnership	(4,433)	(2,197)
Future income tax reduction	(418)	–
Change in non-cash operating working capital	(3)	(14)
Distributions received on Class A LP Units of Pollard Holdings Limited Partnership	6,145	6,186
	5,974	5,974
Financing activities:		
Distributions paid to unitholders	(5,974)	(5,974)
Change in cash, being cash, beginning and end of year	$ –	$ –

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

(IN THOUSANDS OF DOLLARS, EXCEPT FOR UNIT AMOUNTS)
YEARS ENDED DECEMBER 31, 2007 AND 2006

1. DESCRIPTION OF THE FUND:

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

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

The consolidated financial statements should be read in conjunction with the consolidated financial statements of Pollard LP for the year ended December 31, 2007.

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 indicate that the investment may be impaired. If there is an impairment in the value of the investment, that is other than a temporary decline, the investment would be written down to fair value.

(c) Distributions:

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

(d) Income taxes:

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

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

(e) Earnings per unit:

Basic earnings per unit is computed by dividing net income 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, 2007 and 2006, there were no dilutive unit equivalents outstanding.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

(f) Financial instruments:

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.

(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.

(h) Future changes in accounting policies:

The Fund has adopted the following new accounting standards on January 1, 2008:

Capital Disclosures and Financial Instruments - Presentation and Disclosure:

The CICA issued three new accounting standards: Section 1535, *Capital Disclosures*, Section 3862, *Financial Instruments - Disclosures*, and Section 3863, *Financial Instruments - Presentation*. These new standards are effective for fiscal years beginning on or after October 1, 2007.

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

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

3. ACCOUNTING POLICY CHANGES:

Effective the commencement of its 2007 fiscal year, the Fund has adopted the Canadian Institute of Chartered Accountants (CICA) Handbook Section 1530, *Comprehensive Income*, Section 3251, *Equity*, Section 3855, *Financial Instruments - Recognition and Measurement*, Section 3861, *Financial Instruments - Disclosure and Presentation* and Section 3865, *Hedges*. These new Handbook sections, which apply to fiscal years beginning on or after October 1, 2006, provide comprehensive requirements for the recognition and measurement of financial instruments, as well as standards on when and how hedge accounting may be applied. Handbook Section 1530 also establishes standards for reporting and displaying comprehensive income.

3. ACCOUNTING POLICY CHANGES (CONTINUED):

Financial instruments - Recognition and Measurement:

Under these standards all financial instruments will be 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 in subsequent periods depends on the classification. Financial instruments held-for-trading will be subsequently measured at fair value with gains and losses recognized in net income. Financial instruments held-to-maturity, loans and receivables and other financial liabilities will be subsequently 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 will be 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 standard permits designation of any financial instrument as held-for-trading upon initial recognition.

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

The fair value of all financial instruments approximates their carrying value.

Comprehensive Income:

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

A new category, accumulated other comprehensive income (loss), is added to unitholder's equity on the consolidated balance sheets, which includes cumulative changes in other comprehensive income.

The comparative consolidated financial statements have been restated for the Fund's proportionate share in Pollard LP's accumulated other comprehensive loss. In addition, the Fund has recognized its proportionate share of Pollard LP's transition adjustment on adoption of new accounting standards relating to the initial recognition of the accumulated other comprehensive income.

Accounting Changes:

In January 2007, CICA revised Handbook Section 1506, *Accounting Changes*, effective for annual and interim periods beginning on or after January 1, 2007. Section 1506 prescribes the criteria for changing accounting policies, changes in accounting estimates and correction of errors. This section recommends voluntary changes to accounting policies to be applied retrospectively unless it is impractical to do so. Section 1506 also requires changes in estimates to be applied prospectively, while prior periods' errors are to be corrected retrospectively. This is not expected to have a material impact on the Fund's financial statements.

(IN THOUSANDS OF DOLLARS, EXCEPT FOR UNIT AMOUNTS)

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.

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

The investment in Pollard LP is summarized as follows:

	2007	2006
Balance, beginning of year as previously reported	$ 58,224	$ 62,213
Proportionate share of other comprehensive loss from investment in Pollard LP	(190)	(172)
Balance, as adjusted, beginning of year	58,034	62,041
Equity interest	4,433	2,197
Distributions received and receivable	(6,145)	(6,186)
Proportionate share of Pollard LP transition adjustment of adoption of new accounting standards	96	–
Proportionate share of other comprehensive loss	(760)	(18)
Balance, end of year	$ 55,658	$ 58,034

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

(IN THOUSANDS OF DOLLARS, EXCEPT FOR UNIT AMOUNTS)

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

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, 2006	AMORTIZATION FOR THE YEAR ENDED DECEMBER 31, 2007	ACCUMULATED AMORTIZATION DECEMBER 31, 2007
Finite life:				
Customer assets	16	$ 1,644	$ 1,165	$ 2,809
Patents	6	833	608	1,441
Computer software	5	56	42	98
		$ 2,533	$ 1,815	$ 4,348

The Fund's proportionate share of amortization of finite life intangible assets amounts to $1,815 (2006 - $1,794) (note 7).

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

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

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

5. DISTRIBUTIONS PAYABLE TO UNITHOLDERS:

The Fund declared a distribution payable for the month ended December 2007 of $0.0792 per unit. The distribution of $498 (2006 - $498) is payable January 15, 2008, to unitholders of record on December 31, 2007.

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.

(IN THOUSANDS OF DOLLARS, EXCEPT FOR UNIT AMOUNTS)

6. UNITHOLDERS' EQUITY (CONTINUED):

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.

At December 31, 2007 and 2006, there were 6,285,700 Fund Units outstanding.
At December 31, 2007 and 2006, there were 17,257,458 Special Voting Units owned by Pollard Amalco Inc. outstanding.

On August 5, 2005, the Fund, Trust, Pollard Banknote Limited (the "General Partner"), Pollard LP and Pollard Amalco Inc. entered into an Exchange Agreement. The Exchange Agreement stipulates that Pollard Amalco Inc. 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 Amalco Inc. 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.

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

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

		2007		2006
Consolidated net income before extraordinary gain of Pollard LP for the year	$	22,781	$	14,952
Fund's interest		26.7%		26.7%
Fund's proportionate share of Pollard LP consolidated net income before extraordinary gain		6,082		3,991
Amortization of intangible assets		(1,815)		(1,794)
Equity income before extraordinary gain		4,267		2,197
Fund's proportionate share of Pollard LP extraordinary gain		166		–
Equity income from Pollard LP	$	4,433	$	2,197

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 29.5%. On June 22, 2007, the legislation that includes the Tax Fairness Plan was enacted. Currently the Fund would fit the definition of a SIFT and would be subject to certain income taxes beginning in 2011.

(IN THOUSANDS OF DOLLARS, EXCEPT FOR UNIT AMOUNTS)

8. INCOME TAXES (CONTINUED):

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, 2007 are as follows:

Future income tax assets:		
Tax value of investment in Pollard LP in excess of net book value	$	1,098
Valuation allowance		(680)
Total future income tax assets	$	418

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

9. ACCUMULATED OTHER COMPREHENSIVE LOSS:

		2007		2006
Fund's proportionate share of Pollard LP accumulated other comprehensive loss:				
Balance, beginning of year, as previously reported	$	–	$	–
Fund's proportionate share of Pollard LP accumulated other comprehensive loss		(190)		(172)
		(190)		(172)
Fund's proportionate share of Pollard LP transition adjustment on adoption of new accounting standards (note 3)		96		–
Fund's proportionate share in Pollard LP other comprehensive loss		(760)		(18)
Total accumulated other comprehensive loss	$	(854)	$	(190)

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, 2007, these reimbursed costs amounted to $168 (2006 - $198).

12. EQUITY INTEREST IN EXTRAORDINARY GAIN:

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

MANAGEMENT'S REPORT

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

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

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

John Pollard
CO-CHIEF EXECUTIVE OFFICER

Robert Rose
CHIEF FINANCIAL OFFICER

February 22, 2008

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, 2007 and 2006 and the consolidated statements of income, comprehensive income, partners' capital 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, 2007 and 2006 and the results of its operations and its cash flows for the two years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

CHARTERED ACCOUNTANTS

Winnipeg, Canada
February 22, 2008

POLLARD HOLDINGS LIMITED PARTNERSHIP

Consolidated Statements of Income

(IN THOUSANDS OF DOLLARS)
YEARS ENDED DECEMBER 31, 2007 AND 2006

	2007	2006
Sales	$ 164,474	$ 176,666
Cost of sales	130,535	136,447
	33,939	40,219
Expenses:		
Selling and administration	19,051	19,270
Interest (note 16)	2,719	2,580
Foreign exchange gain	(4,962)	(3,709)
Mark-to-market loss (gain) on foreign currency contracts (note 22)	(6,315)	4,013
Long-term incentive plan (note 23)	–	175
Other income	(599)	(849)
	9,894	21,480
Income before the undernoted	24,045	18,739
Employee profit sharing	1,701	2,249
Income before income taxes and extraordinary gain	22,344	16,490
Income taxes (note 12):		
Current	1,597	1,894
Future reduction	(2,034)	(356)
	(437)	1,538
Extraordinary gain (note 24)	621	–
Net income	$ 23,402	$ 14,952

POLLARD HOLDINGS LIMITED PARTNERSHIP

Consolidated Statements of Comprehensive Income

(IN THOUSANDS OF DOLLARS)
YEARS ENDED DECEMBER 31, 2007 AND 2006

	2007	2006
Net income	$ 23,402	$ 14,952
Other comprehensive loss:		
Unrealized loss on translation of self-sustaining foreign operations	(2,240)	(68)
Unrealized loss on derivatives designated as cash flow hedges, net of income tax reduction of $220	(604)	–
Other comprehensive loss, net of income tax	(2,844)	(68)
Comprehensive income	$ 20,558	$ 14,884

See accompanying notes to consolidated financial statements.

POLLARD HOLDINGS LIMITED PARTNERSHIP

Consolidated Balance Sheets

(IN THOUSANDS OF DOLLARS)
DECEMBER 31, 2007 AND 2006

	2007	2006
Assets		
Current assets:		
Cash and cash equivalents	$ 2,129	$ 1,779
Accounts receivable	18,360	19,035
Loan to Pollard Amalco Inc. (note 4)	16,961	16,401
Inventories (note 5)	15,789	17,627
Prepaid expenses and deposits	2,874	3,463
Net investment in leases due within one year	1,359	2,030
	57,472	60,335
Property, plant and equipment (note 6)	35,017	35,221
Net investment in leases (note 7)	904	2,277
Goodwill (note 8)	5,132	5,980
Other assets (note 9)	706	694
Future income taxes (note 12)	1,519	–
Foreign currency contracts (note 22)	6,372	57
	$ 107,122	$ 104,564

See accompanying notes to consolidated financial statements.

	2007	2006

Liabilities and Partners' Capital

	2007	2006
Current liabilities:		
Bank indebtedness (note 11)	$ 7,437	$ –
Accounts payable and accrued liabilities	12,924	13,471
Distributions payable to partners (note 10)	499	499
Distributions payable to Pollard Amalco Inc. (note 4)	18,328	18,328
Income taxes payable	1,308	1,324
	40,496	33,622
Long-term debt (note 11)	46,537	48,964
Interest rate swap contracts (note 3)	372	–
Future income taxes (note 12)	–	620
Partners' capital:		
Partners' capital (note 13)	22,915	22,070
Accumulated other comprehensive loss (note 14)	(3,198)	(712)
	19,717	21,358
Commitments and contingencies (note 15)		
	$ 107,122	$ 104,564

See accompanying notes to consolidated financial statements.

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

D.C. Crewson
DIRECTOR

John Pollard
DIRECTOR

Consolidated Statements of Partners' Capital

(IN THOUSANDS OF DOLLARS)

	GENERAL PARTNER UNITS	CLASS A LP UNITS	CLASS B LP UNITS	CLASS C LP UNITS	TOTAL
Partners' capital, December 31, 2005	$ (13)	$ 49,974	$ (16,640)	$ (3,605)	$ 29,716
Net income for the year ended December 31, 2006	7	3,991	8,713	2,241	14,952
Distributions declared	(12)	(6,186)	(13,044)	(3,356)	(22,598)
Partners' capital, December 31, 2006	(18)	47,779	(20,971)	(4,720)	22,070
Net income for the year ended December 31, 2007	12	6,245	13,636	3,509	23,402
Distributions declared (note 13)	(12)	(6,145)	(13,044)	(3,356)	(22,557)
Partners' capital, December 31, 2007	$ (18)	$ 47,879	$ (20,379)	$ (4,567)	$ 22,915

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

(IN THOUSANDS OF DOLLARS)
YEARS ENDED DECEMBER 31, 2007 AND 2006

	2007	2006
Cash and cash equivalents provided by (used in):		
Operating activities:		
Net income	$ 23,402	$ 14,952
Items not involving cash:		
Amortization	6,438	6,870
Loss (gain) on sale of equipment	(28)	8
Unrealized foreign exchange gain	(2,176)	(304)
Future income tax reduction	(2,034)	(356)
Mark-to-market loss (gain) on foreign currency contracts	(6,315)	4,013
Change in non-cash operating working capital (note 17)	982	(1,682)
	20,269	23,501
Investing activities:		
Additions to property, plant and equipment	(6,022)	(3,464)
Change in net investment in leases	1,781	775
Proceeds from sale of equipment	28	3
Change in other assets	(81)	(158)
	(4,294)	(2,844)
Financing activities:		
Change in bank indebtedness	7,588	–
Increase in deferred financing charges	(40)	(5)
Change in loan to Pollard Amalco Inc. (note 4)	(560)	(11,670)
Change in distributions payable to Pollard Amalco Inc. (note 4)	–	11,670
Distributions	(22,557)	(22,598)
	(15,569)	(22,603)
Foreign exchange loss on cash held in foreign currency	(56)	(101)
Increase (decrease) in cash and cash equivalents	350	(2,047)
Cash and cash equivalents, beginning of year	1,779	3,826
Cash and cash equivalents, end of year	$ 2,129	$ 1,779
Supplementary cash flow information:		
Interest paid	$ 2,699	$ 2,748
Income taxes paid	1,641	1,919

See accompanying notes to consolidated financial statements.

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. ("Amalco" or the "predecessor company"), and to operate such business thereafter.

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

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) Cash and cash equivalents:

Cash and cash equivalents consist of cash on deposit and highly liquid short-term investments, with original maturities at the date of acquisition of 90 days or less, and are recorded at cost plus accrued interest. At December 31, 2007, cash and cash equivalents are classified as held-for-trading and are carried at fair value.

(c) Revenue recognition:

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

(d) Leases:

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

(e) Inventories:

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

(f) Goodwill:

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

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

(g) Intangibles:

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

(h) Property, plant and equipment:

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

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

Property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. No assets have been deemed to be impaired at December 31, 2007 and 2006.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

(i) Financial instruments:

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

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

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

(j) Translation of foreign currencies:

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

(k) Employee future benefits:

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

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

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

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

(l) Income taxes:

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

Pollard LP 's incorporated subsidiaries are taxable entities and as such, income taxes are recorded to reflect the expected future tax consequences of temporary differences between the carrying amounts of assets and liabilities and their tax basis. Future income tax assets and liabilities are determined based on the enacted or substantively enacted tax rates, which are expected to be in effect when the underlying items of income and expense are expected to be realized. Valuation allowances are established when necessary to reduce the future tax assets to the amounts expected to be realized. No valuation allowances have been deemed necessary at December 31, 2007 and 2006. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of enactment or substantive enactment. Income tax expense includes withholding taxes.

(m) Use of estimates:

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

(n) Comparative figures:

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

(o) Future changes in accounting policies:

Pollard LP has adopted the following new accounting standards on January 1, 2008:

CAPITAL DISCLOSURES AND FINANCIAL INSTRUMENTS - PRESENTATION AND DISCLOSURE:

The Canadian Institute of Chartered Accountants (CICA) issued three new accounting standards: Section 1535, *Capital Disclosures*, Section 3862, *Financial Instruments - Disclosures*, and Section 3863, *Financial Instruments - Presentation*. These new standards are effective for fiscal years beginning on or after October 1, 2007.

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

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

INVENTORIES:

CICA issued Section 3031, *Inventories*, which will replace Section 3030, *Inventories*, and is effective for fiscal years beginning on or after July 1, 2007. Section 3031 provides more extensive guidance on measurement, and expands disclosure requirements to increase transparency. Pollard LP's accounting policy for inventories is consistent with measurement requirements in the new standard and therefore it is not anticipated that the results of Pollard LP will be impacted. However, additional disclosure will be required in relation to inventories carried at net realizable value and the amount of any write-downs of inventories.

3. ACCOUNTING POLICY CHANGES:

Effective the commencement of its 2007 fiscal year, Pollard LP has adopted CICA Handbook Section 1530, *Comprehensive Income*, Section 3251, *Equity*, Section 3855, *Financial Instruments - Recognition and Measurement*, Section 3861, *Financial Instruments - Disclosure and Presentation*, and Section 3865, *Hedges*. These new Handbook sections, which apply to fiscal years beginning on or after October 1, 2006, provide comprehensive requirements for the recognition and measurement of financial instruments, as well as standards on when and how hedge accounting may be applied. The adoption of these accounting standards have been applied retroactively without restatement, as required by the standards.

Handbook Section 1530 establishes standards for reporting and displaying comprehensive income.

3. ACCOUNTING POLICY CHANGES (CONTINUED):

FINANCIAL INSTRUMENTS - RECOGNITION AND MEASUREMENT:

Under these standards all financial instruments will be 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 in subsequent periods depends on the initial classification. Financial instruments held-for-trading will be subsequently measured at fair value with gains and losses recognized in net income. Financial instruments held-to-maturity, loans and receivables and other financial liabilities will be subsequently 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 will be measured at fair value with unrealized gains and losses recognized in other comprehensive income until such time as the asset or liability is derecognized or impaired at which time the amounts would be recorded in net income. The standard permits designation of any financial instrument as held-for-trading upon initial recognition.

- Pollard LP's short-term liquid investments included in cash and cash equivalents have been classified as held-for-trading assets.
- The accounts receivable and loan to Pollard Amalco Inc. have been classified as loans and receivables.
- The accounts payable and accrued liabilities, distributions payable to partners and long-term debt have been classified as other financial liabilities.
- The foreign exchange contracts have been classified as held-for-trading.
- Interest rate swap contracts, in an effective hedging relationship [note 2(i)], are recorded on the consolidated balance sheet at fair value with the change in fair value recorded in other comprehensive income.

The fair value of all the financial instruments approximates their carrying value.

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.

COMPREHENSIVE INCOME:

Comprehensive income is comprised of net income and other comprehensive income and is now disclosed in the consolidated statements of comprehensive income. Comprehensive income is the change in net assets resulting from transactions or events from sources other than the Limited Partners. Other comprehensive income 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.

A new category, accumulated other comprehensive income (loss), is added to partners' capital on the consolidated balance sheets which includes cumulative changes in other comprehensive income.

The comparative consolidated financial statements have been reclassified for the retroactive restatement of the unrealized foreign currency translation losses on the net investment in self-sustaining foreign operations from cumulative translation adjustment to accumulated other comprehensive loss.

(IN THOUSANDS OF DOLLARS, EXCEPT FOR UNIT AMOUNTS)

3. ACCOUNTING POLICY CHANGES (CONTINUED):

HEDGE ACCOUNTING:

At the inception of a hedging transaction, Pollard LP documents the relationship between the hedging instrument and the hedged item, which includes linking all derivatives to specific liabilities.

Hedges must be designated as either a fair value hedge, a cash flow hedge or as a hedge of net investment in a self-sustaining foreign operation. Pollard LP's hedge is designated as a cash flow hedge.

In a cash flow hedging relationship, the effective portion of the gain or loss on the hedging item is initially recognized in other comprehensive income. The ineffective portion is recognized in net income. The amounts recognized in accumulated other comprehensive loss (note 14) will be reclassified to net income in the periods in which net income is affected by the variability in the cash flows of the hedged items.

Transition adjustment recorded at January 1, 2007:

	GROSS	INCOME TAXES	NET
Accumulated other comprehensive income:			
Effective portion of fair value of cash flow hedge	$ 453	$ 95	$ 358

ACCOUNTING CHANGES:

In January 2007, CICA revised Handbook Section 1506, *Accounting Changes*, effective for annual and interim periods beginning on or after January 1, 2007. Section 1506 prescribes the criteria for changing accounting policies, changes in accounting estimates and correction of errors. This section recommends voluntary changes to accounting policies to be applied retrospectively unless it is impractical to do so. Section 1506 also requires changes in estimates to be applied prospectively, while prior periods' errors are to be corrected retrospectively. This is not expected to have a material impact on Pollard LP's financial statements.

4. LOAN TO POLLARD AMALCO INC. AND DISTRIBUTIONS PAYABLE TO POLLARD AMALCO INC.:

Pollard Amalco Inc. has exercised its right to receive its entitlement to monthly cash distributions from Pollard LP by way of loan. The loan to Pollard Amalco Inc. of $16,961 (2006 - $16,401) and the distributions payable of $18,328 (2006 - $18,328) were settled subsequent to the end of the fiscal year. For purposes of financial presentation, the loan receivable from and related distributions payable to Pollard Amalco Inc. 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 Amalco Inc. is an amount of $1,367 (2006 - $1,927) relating to distributions declared December 12, 2007, for unitholders on record at December 31, 2007, payable on January 15, 2008.

5. INVENTORIES:

	DECEMBER 31, 2007	DECEMBER 31, 2006
Raw materials	$ 4,708	$ 5,197
Work-in-process	795	942
Finished goods	10,286	11,488
	$ 15,789	$ 17,627

(IN THOUSANDS OF DOLLARS, EXCEPT FOR UNIT AMOUNTS)

6. PROPERTY, PLANT AND EQUIPMENT:

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

DECEMBER 31, 2006	COST	ACCUMULATED AMORTIZATION	NET BOOK VALUE
Land	$ 2,069	$ –	$ 2,069
Buildings	18,298	4,285	14,013
Leasehold improvements	617	550	67
Equipment	83,612	65,401	18,211
Furniture, fixtures and computers	3,009	2,148	861
	$ 107,605	$ 72,384	$ 35,221

7. NET INVESTMENT IN LEASES:

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

	2007	2006
Total minimum lease payments to be received	$ 2,415	$ 4,647
Unearned income (interest rate ranging from 4.43% to 11.35%)	(152)	(340)
	2,263	4,307
Less net investment in leases due within one year	1,359	2,030
	$ 904	$ 2,277

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

2008	$ 1,407
2009	712
2010	229
2011	67
	$ 2,415

(IN THOUSANDS OF DOLLARS, EXCEPT FOR UNIT AMOUNTS)

8. GOODWILL:

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

	2007	2006
Balance, beginning of year	$ 5,980	$ 6,005
Changes in foreign exchange rates	(848)	(25)
Balance, end of year	$ 5,132	$ 5,980

9. OTHER ASSETS:

	2007	2006
Patents, net of amortization	$ 519	$ 445
Other	187	249
	$ 706	$ 694

10. DISTRIBUTIONS PAYABLE TO PARTNERS:

Pollard LP declared a distribution payable for the month ended December 31, 2007, of $0.0792 per Class A, Class B and Class C LP Units. Distributions of $498 are payable on the Class A LP Units and distributions of $1 are payable on the General Partner Units on January 15, 2008, to unitholders of record on December 31, 2007. The distribution of $1,367 (2006 - $1,927) relating to the Class B and Class C LP Units is payable January 15, 2008, to unitholders of record on December 31, 2007, and is included in distributions payable to Pollard Amalco Inc.

11. LONG-TERM DEBT:

	2007	2006
Term bank loan, interest of 4.89% to 6.19% payable monthly, maturing 2010	$ 32,000	$ 32,000
Term bank loan US$14,778, interest of 6.17% payable monthly, maturing 2010	14,631	17,142
Deferred financing charges, net of amortization	(94)	(178)
	$ 46,537	$ 48,964

Pollard LP's credit facilities include a demand operating facility and a committed term bank loan facility. The demand operating facility includes up to $20,000 for its Canadian operations and up to $7,920 (US$8,000) for its U.S. subsidiaries. The committed term bank loan facility provides loans of up to $32,000 for its Canadian operations and up to $14,631 (US$14,778) for its U.S. subsidiaries. Borrowings under these credit facilities bear interest at fixed and floating rates based on Canadian and U.S. prime bank rates, banker's acceptances or LIBOR. At December 31, 2007, the balances outstanding under the demand operating facilities, other than letters of credit of $2,923 (2006 - $6,136), were $7,437 (2006 - nil) and the committed term bank loan facilities were fully drawn.

Under the terms and conditions of the credit facility agreement Pollard LP is required to maintain certain financial covenants including working capital ratios, debt to income before interest, taxes, depreciation and amortization ratios and certain debt service coverage ratios. As at December 31, 2007, Pollard LP is in compliance with all financial covenants.

(IN THOUSANDS OF DOLLARS, EXCEPT FOR UNIT AMOUNTS)

11. LONG-TERM DEBT (CONTINUED):

Pollard LP's credit facilities are secured by a first security interest in all of the present and after acquired property of Pollard LP and its operating subsidiaries. The term bank loan facility can be prepaid without penalties. Under the terms of the agreement, the term facility is committed for a one year period, renewable August 31, 2008. If the term facility is not renewed, the term loans are repayable two years after the term loan expiry date. As such, each term facility has effectively a three year term expiring August 31, 2010, with no principal payments required prior to expiration.

Pollard LP entered into three interest rate swap agreements effectively converting variable rate debt obligations in the amount of $27,000 with underlying current floating rates of 4.83 percent plus applicable credit margin to a fixed rate of 3.74 percent plus applicable credit margin to August 2, 2008, and to a fixed rate of 4.44 percent plus applicable credit margin from August 2, 2008 to August 31, 2009, and to a fixed rate of 4.99 percent plus applicable credit margin from August 31, 2009 to August 31, 2010.

Pollard Holdings, Inc. entered into three interest rate swap agreements effectively converting variable rate debt obligations in the amount of $14,631 (US$14,778) with underlying current floating rates of 5.32 percent plus applicable credit margin to a fixed rate of 4.67 percent plus applicable credit margin to August 5, 2008, to a fixed rate of 5.20 percent plus applicable credit margin from August 5, 2008 to August 31, 2009 and to a fixed rate of 4.72 percent plus applicable credit margin from August 31, 2009 to August 31, 2010.

12. INCOME TAXES:

(a) Components of income tax provision:

The provision for income taxes is comprised of the following:

	2007	2006
Canada:		
Current income taxes	$ 455	$ 498
United States:		
Current income taxes	1,142	1,396
Future income taxes reduction	(2,034)	(356)
	(892)	1,040
	$ (437)	$ 1,538

(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:

	2007	2006
Income taxes at Canadian rates:		
Canadian combined federal and provincial income tax rate	35.3%	35.7%
Income taxes	$ 8,107	$ 5,887
Partnership net income allocated to limited partners and therefore not subject to tax	(6,920)	(4,999)
Withholding taxes	455	498
Effect of non-taxable items related to foreign exchange	(2,079)	152
Provision for income taxes	$ (437)	$ 1,538

(IN THOUSANDS OF DOLLARS, EXCEPT FOR UNIT AMOUNTS)

12. INCOME TAXES (CONTINUED):

(c) Future income tax liability:

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

		2007		2006
Future income tax assets:				
Foreign exchange	$	1,923	$	516
Inventories		152		143
Accrued expenses and other reserves		407		425
Future income tax assets	$	2,482	$	1,084
Future income tax liabilities:				
Property, plant and equipment	$	(328)	$	(680)
Leasing transactions		(245)		(761)
Goodwill		(390)		(263)
Future income tax liabilities	$	(963)	$	(1,704)
Net future income tax asset (liability)	$	1,519	$	(620)

(d) At December 31, 2007, the tax basis of the limited partnership's assets and liabilities exceeds the carrying value of those assets and liabilities by $10,281 (2006 - $15,789).

13. PARTNERS' CAPITAL:

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, 2007 and 2006, Pollard LP has the following issued and outstanding units:

	CLASS A LP UNITS	CLASS B LP UNITS	CLASS C LP UNITS
Pollard Amalco Inc.	–	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, 2007 and 2006.

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.

SUBORDINATION END DATE:

The Class C LP Units could be converted to Class B LP units of Pollard LP on the subordination end date that is the first date following June 30, 2007 on which:

(a) Pollard LP has realized defined annual earnings targets of $28,066 as set out in the limited partnership agreement; and

13. PARTNERS' CAPITAL (CONTINUED):

(b) Each of the Fund and Pollard LP has paid average monthly cash distributions of at least $0.0792 per unit or LP Unit, for the preceding 24-month period ending on or after June 30, 2007.

It has been determined that the subordination end date occurred October 1, 2007.

UNIT DISTRIBUTIONS:

Distributions on the LP Units were made in the following priority before the subordination end date:

(a) First, holders of General Partner Units were entitled to receive monthly cash distributions equal to the general partner interest, being 0.05 percent. Second, holders of Class A LP Units were entitled to receive an amount sufficient to provide the Fund with available cash to make cash distributions of a minimum of $0.0792 per unit for such month or, if there is insufficient available cash to make distributions in such amounts, such lesser amount as is available, on a proportionate basis; and to holders of Class B LP Units, an amount per Class B LP Unit equal to the cash distribution per unit of the Fund in such month.

(b) At the end of each fiscal quarter of Pollard LP, including the fiscal quarter ending on the fiscal year end, available cash was distributed in the following order of priority:

(i) first, in payment of the monthly cash distribution to the holders of General Partner Units, Class A LP Units and Class B LP Units as described in (a) above for the period then ended;

(ii) second, to the holders of Class A LP Units and Class B LP Units, if monthly per unit distributions on the units in respect of the 12 month period then ended were not made or were made in amounts less than the amounts described above, the amount of any such deficiency;

(iii) third, to holders of Class C LP Units, $0.2375 per Class C LP Unit or, if there is insufficient cash to make distributions in such amounts, such lesser amount as is available;

(iv) fourth, to the holders of Class C LP Units, to the extent that per unit distributions on the Class C LP Units in respect of any fiscal quarter(s) during the 12 month period then ended were not made or were made in amounts less than $0.2375 per Class C LP Unit, the amount of such deficiency or such lesser amount as is available; and

(v) fifth, to the extent of any remaining cash, to the holders of Class A LP Units, Class B LP Units and Class C LP Units such that aggregate per unit distributions on the units of the Fund, Class B LP Units and Class C LP Units are the same.

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

Distributions on the LP Units after the subordination end date 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.

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

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

(IN THOUSANDS OF DOLLARS, EXCEPT FOR UNIT AMOUNTS)

13. PARTNERS' CAPITAL (CONTINUED):

The following outlines the distributions declared during the year ended December 31, 2007:

	GENERAL PARTNER UNITS	CLASS A LP UNITS	CLASS B LP UNITS	CLASS C LP UNITS	TOTAL
January 15, 2007	$ 1	$ 506	$ 1,087	$ –	$ 1,594
February 14, 2007	1	498	1,087	–	1,586
March 14, 2007	1	506	1,087	839	2,433
April 12, 2007	1	521	1,087	–	1,609
May 9, 2007	1	560	1,087	–	1,648
June 13, 2007	1	506	1,087	839	2,433
July 12, 2007	1	502	1,087	–	1,590
August 8, 2007	1	500	1,087	–	1,588
September 12, 2007	1	501	1,087	839	2,428
October 10, 2007	1	508	1,087	280	1,876
November 7, 2007	1	539	1,087	280	1,907
December 12, 2007	1	498	1,087	279	1,865
	$ 12	$ 6,145	$ 13,044	$ 3,356	$22,557

Of the distributions declared on its Class A LP units during 2007, $171 (2006 - $211) was to fund a portion of the administrative costs of the Trust and the Fund.

UNIT RIGHTS:

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

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

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

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

(IN THOUSANDS OF DOLLARS, EXCEPT FOR UNIT AMOUNTS)

14. ACCUMULATED OTHER COMPREHENSIVE LOSS:

	2007	2006
Translation of financial statements of self-sustaining foreign operations:		
Balance, beginning of year, as previously reported	$ –	$ –
Unrealized loss on translation of financial statements of self-sustaining foreign operations	(712)	(644)
As adjusted	(712)	(644)
Unrealized loss on translation of financial statements of self-sustaining foreign operations	(2,240)	(68)
Balance, end of year	(2,952)	(712)
Derivatives designated as cash flow hedges:		
Transition adjustment on adoption of new accounting standards (note 3)	358	–
Unrealized loss on derivatives designated as cash flow hedges, net of income tax reduction of $220	(604)	–
Balance, end of year	(246)	–
Total accumulated other comprehensive loss	$ (3,198)	$ (712)

15. COMMITMENTS AND CONTINGENCIES:

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

2008	$ 419
2009	233
2010	178
2011	113
2012	107

Pollard LP is contingently liable for outstanding letters of credit in the amount of $2,923 at December 31, 2007 (2006 - $6,136). These letters of credit are part of Pollard LP's demand operating bank facility and are secured as disclosed in note 11.

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

(IN THOUSANDS OF DOLLARS, EXCEPT FOR UNIT AMOUNTS)

15. COMMITMENTS AND CONTINGENCIES (CONTINUED):

During the first quarter of 2008, Pollard Games, Inc. is expected to complete the purchase of its previously leased land and building for a total purchase price of US$3.3 million, financed through the existing credit facility.

Subsequent to year end, Pollard LP committed to purchase a new instant ticket press line for approximately US$8.5 million. The purchase will be financed through the existing credit facility and is expected to be delivered by the beginning of the third quarter of 2008.

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:

	2007	2006
Interest expense incurred on:		
Long-term debt	$ 2,549	$ 2,567
Other	170	13
	$ 2,719	$ 2,580

17. SUPPLEMENTARY CASH FLOW INFORMATION:

	2007	2006
Change in non-cash operating working capital:		
Accounts receivable	$ (65)	$ (105)
Inventories	812	(1,808)
Prepaid expenses and deposits	116	(1,074)
Accounts payable and accrued liabilities	11	923
Income taxes payable	108	382
	$ 982	$ (1,682)

(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, 2007. One of the Canadian plans of Pollard LP requires valuation every three years with the last valuation as of December 31, 2004. The other Canadian plan of Pollard LP requires valuation every four years with the last valuation as of January 1, 2004. Pollard LP's U.S. subsidiaries also maintain two defined contribution plans. The pension expense for these defined contribution plans is the annual funding contribution by the subsidiaries.

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

	2007	2006
Benefit plan assets:		
Fair value, beginning of year	$ 12,898	$ 10,803
Actual return on plan assets	179	1,135
Employer contributions	1,686	1,699
Benefits paid	(686)	(711)
Other	(244)	(28)
Fair value, end of year	$ 13,833	$ 12,898
Accrued benefit plan obligations:		
Balance, beginning of year	$ 17,757	$ 14,888
Current service cost	1,683	1,621
Interest cost	956	853
Benefits paid	(686)	(711)
Actuarial loss (gain)	(1,265)	1,047
Other	(221)	59
Balance, end of year	18,224	17,757
Deficit of plan assets versus plan obligations	(4,391)	(4,859)
Unamortized net actuarial loss	3,823	4,530
Net accrued benefit plan liability	$ (568)	$ (329)
Recognized in the consolidated balance sheet as accounts payable and accrued liabilities	$ (568)	$ (329)

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:

	2007	2006
Accrued benefit plan obligations	$ 18,224	$ 17,757
Fair value of benefit plan assets	13,833	12,898
Deficit	$ 4,391	$ 4,859

(IN THOUSANDS OF DOLLARS, EXCEPT FOR UNIT AMOUNTS)

18. PENSION BENEFITS (CONTINUED):

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

	2007	2006
Net defined benefit plans cost:		
Current service cost	$ 1,683	$ 1,621
Interest on plan obligations	956	853
Actual return on plan assets	(179)	(1,135)
Difference between expected return and actual return on plan assets	(681)	439
Amortization of actuarial gains and losses	174	204
Net defined benefit plans cost	1,953	1,982
Defined contribution plans cost	192	147
Net pension plans cost	$ 2,145	$ 2,129

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

	2007	2006
Discount rate	5.50% to 6%	5.25% to 6%
Rate of compensation increase	0% to 5%	0% to 5%

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

	2007	2006
Discount rate	5.5% to 6%	5.5% to 6%
Expected long-term rate of return on plan assets	6.5%	6%
Rate of compensation increase	0% to 5%	0% to 5%

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

	2007	2006
Equities	51.6%	51.3%
Bonds	30.8%	32.0%
Cash and cash equivalents	17.6%	16.7%
	100.0%	100.0%

(IN THOUSANDS OF DOLLARS, EXCEPT FOR UNIT AMOUNTS)

19. RELATED PARTY TRANSACTIONS:

During the year, Pollard Amalco Inc. paid to Pollard Banknote LP $36 (2006 - $36) in 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, 2007, these reimbursed costs amounted to $168 (2006 - $198).

In accordance with certain indemnification agreements, Pollard Amalco Inc. reimbursed Pollard LP for $200 in legal fees during the period.

20. SALES TO MAJOR CUSTOMERS:

For the year ended December 31, 2007, sales to one customer amounted to approximately 10 percent of consolidated sales. For the year ended December 31, 2006, sales to one customer amounted to approximately 11 percent of consolidated sales and sales to a second customer amounted to approximately 10 percent of consolidated sales.

21. SEGMENTED INFORMATION:

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

	2007	2006
Sales:		
Canada	$ 39,652	$ 38,431
U.S.	89,563	102,321
Other	35,259	35,914
Total	$ 164,474	$ 176,666
Property, plant and equipment and goodwill:		
Canada	$ 19,767	$ 20,729
U.S.	20,382	20,472
	$ 40,149	$ 41,201

22. FINANCIAL INSTRUMENTS:

(a) Risk management:

FOREIGN CURRENCY CONTRACTS:

In order to manage Pollard LP's exposure to exchange rate fluctuations on US dollar denominated cash flow, Pollard LP has entered into foreign currency contracts to exchange US$3,000 each month for approximately $3,257, for 24 consecutive months from January 2008 to December 2009. The foreign currency contracts are recognized in the balance sheets and measured at fair value, which at December 31, 2007, represented an asset of $6,372 (2006 - $57).

INTEREST RATE SWAPS:

Pollard LP uses interest rate swap agreements in order to fix interest rates on a portion of long-term debt. The interest rate swap agreements entitle Pollard LP and Pollard Holdings, Inc. to receive interest at floating rates and pay interest at a fixed rate.

Pollard LP entered into three interest rate swap agreements effectively converting variable rate debt obligations in the amount of $27,000 with underlying current floating rates of 4.83 percent plus applicable credit margin to a fixed rate of 3.74 percent plus applicable credit margin to August 2, 2008, to a fixed rate of 4.44 percent plus applicable credit margin from August 2, 2008 to August 31, 2009, and to a fixed rate of 4.99 percent plus applicable credit margin from August 31, 2009 to August 31, 2010.

Pollard Holdings, Inc. entered into three interest rate swap agreements effectively converting variable rate debt obligations in the amount of $14,631 (US$14,778) with underlying current floating rates of 5.32 percent plus applicable credit margin to a fixed rate of 4.67 percent plus applicable credit margin to August 5, 2008, and to a fixed rate of 5.20 percent plus applicable credit margin from August 5, 2008 to August 31, 2009, and to a fixed rate of 4.72 percent plus applicable credit margin from August 31, 2009 to August 31, 2010.

CREDIT RISK:

Credit risk on Pollard LP's accounts receivable is minimized since they are mainly from governments and their agencies and are collected in a relatively short period of time. Credit risk on Pollard LP's net investment in leases is minimized since they are with governments and their agencies or dispersed among a large, diversified group of customers.

MARKET RISK:

Pollard LP sells a portion of its products to the United States and to international customers where sales are denominated in US dollars. In addition, Pollard LP purchases a portion of its goods from the United States. These activities give rise to exposure to market risk from changes in foreign exchange rates. Foreign currency contracts are used to mitigate these risks.

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.

(IN THOUSANDS OF DOLLARS, EXCEPT FOR UNIT AMOUNTS)

22. FINANCIAL INSTRUMENTS (CONTINUED):

(b) Fair value:

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 cash and cash equivalents, accounts receivable, loan to Pollard Amalco Inc., 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 as the interest rates implicit in the leases approximate rates for similar type instruments.

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

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

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

23. LONG-TERM INCENTIVE PLAN:

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

The percentage amount of that excess which forms the LTIP incentive pool will be determined in accordance with the table below:

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

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

For the year ended December 31, 2006, a provision for LTIP awards of $175 was accrued and subsequently paid in 2007.

24. EXTRAORDINARY GAIN:

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

The Board of Directors of Pollard Banknote Limited

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The Honourable Gary Filmon, P.C., O.M. [1, 2]
Del Crewson[1]
Jerry Gray [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

The Honourable Gary Filmon, P.C., O.M. [3]
Del Crewson [3]
Jerry Gray [3]

3 Member of the Audit Committee

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CO-CHIEF EXECUTIVE OFFICER

John Pollard
CO-CHIEF EXECUTIVE OFFICER

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