Condensed Consolidated Interim Financial Statements of

POLLARD BANKNOTE LIMITED

(unaudited)

Three months ended March 31, 2023

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

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

		March 31, 2023		December 31, 2022
Assets				
Current assets				
Cash	$	3,034	$	1,479
Restricted cash		25,712		25,030
Accounts receivable (note 17)		62,590		79,310
Inventories (note 5)		64,256		62,132
Prepaid expenses and deposits		9,158		6,917
Income taxes receivable		12,997		10,065
Total current assets		177,747		184,933
Non-current assets				
Long-term receivables (note 17)		472		488
Property, plant and equipment		99,353		100,620
Equity investment (note 6)		488		549
Goodwill		111,407		111,156
Intangible assets		100,973		99,462
Deferred income taxes		2,801		1,070
Pension asset (note 8)		2,785		988
Total non-current assets		318,279		314,333
Total assets	$	496,026	$	499,266
Liabilities and Shareholders' Equity				
Current liabilities				
Accounts payable and accrued liabilities	$	82,637	$	89,523
Dividends payable		1,077		1,077
Income taxes payable		7,006		6,189
Current portion lease liabilities		5,362		6,081
Contract liabilities (note 10)		2,105		2,159
Total current liabilities		98,187		105,029
Non-current liabilities				
Lease liabilities		8,572		7,539
Deferred income taxes		12,085		12,623
Long-term debt (note 7)		119,252		121,655
Other non-current liabilities		686		486
Total non-current liabilities		140,595		142,303
Shareholders' equity				
Share capital (note 9)		149,849		149,849
Reserves		9,174		8,913
Retained earnings		98,221		93,172
Total shareholders' equity		257,244		251,934
Total liabilities and shareholders' equity	$	496,026	$	499,266

See accompanying notes to condensed consolidated interim financial statements.

Pollard Banknote Limited

Condensed Consolidated Statements of Income

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

	Three months ended March 31, 2023	Three months ended March 31, 2022
Sales (note 10)	$ 124,633	$ 113,872
Cost of sales	107,539	92,278
Gross profit	17,094	21,594
Administration	13,363	12,089
Selling	4,616	4,106
Equity investment income (note 6)	(8,604)	(3,953)
Other expenses (note 11)	165	9
Income from operations	7,554	9,343
Finance costs (note 12)	2,718	1,786
Finance income (note 12)	(283)	(460)
Income before income taxes	5,119	8,017
Income taxes (note 13)		
Current	2,993	2,674
Deferred reduction	(2,700)	(1,082)
	293	1,592
Net income	$ 4,826	$ 6,425
Net income per share – basic and diluted (note 14)	$ 0.18	$ 0.24

See accompanying notes to condensed consolidated interim financial statements.

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

	Three months ended March 31, 2023	Three months ended March 31, 2022
Net income	$ 4,826	$ 6,425
Other comprehensive income:		
Items that are or may be reclassified to profit and loss		
Foreign currency translation differences – foreign operations	261	(4,843)
Items that will never be reclassified to profit and loss		
Defined benefit plans remeasurements, net of income taxes (note 8 & note 13)	1,189	8,930
Other comprehensive income	1,450	4,087
Comprehensive income	$ 6,276	$ 10,512

See accompanying notes to condensed consolidated interim financial statements.

Pollard Banknote Limited

Condensed Consolidated Statements of Changes in Equity

(*In thousands of Canadian dollars*)

(unaudited)

For the three months ended March 31, 2023

		Share capital	Translation reserve	Retained earnings	Total equity
Balance at December 31, 2022	$	149,849	8,913	93,172	251,934
Net income		–	–	4,826	4,826
Other comprehensive income:					
Foreign currency translation differences – foreign operations		–	261	–	261
Defined benefit plans remeasurements, net of income taxes (note 8 & note 13)		–	–	1,189	1,189
Total other comprehensive income	$	–	261	1,189	1,450
Total comprehensive income	$	–	261	6,015	6,276
Share based compensation	$	–	–	111	111
Dividends (note 9)		–	–	(1,077)	(1,077)
Balance at March 31, 2023	$	149,849	9,174	98,221	257,244

For the three months ended March 31, 2022

		Share capital	Translation reserve	Retained earnings	Total equity
Balance at December 31, 2021	$	149,849	(1,579)	58,687	206,957
Net income		–	–	6,425	6,425
Other comprehensive income (loss):					
Foreign currency translation differences – foreign operations		–	(4,843)	–	(4,843)
Defined benefit plans remeasurements, net of income taxes		–	–	8,930	8,930
Total other comprehensive income (loss)	$	–	(4,843)	8,930	4,087
Total comprehensive income (loss)	$	–	(4,843)	15,355	10,512
Share based compensation	$	–	–	108	108
Dividends		–	–	(1,077)	(1,077)
Balance at March 31, 2022	$	149,849	(6,422)	73,073	216,500

See accompanying notes to condensed consolidated interim financial statements.

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

	Three months ended March 31, 2023	Three months ended March 31, 2022
Cash increase (decrease)		
Operating activities		
Net income	$ 4,826	$ 6,425
Adjustments		
Income taxes expense	293	1,592
Amortization and depreciation	10,542	9,738
Interest expense	2,718	1,786
Unrealized foreign exchange gain	(186)	(672)
Equity investment income (note 6)	(8,604)	(3,953)
Pension expense	1,671	2,332
Contingent consideration fair value adjustment (note 11)	434	146
Interest paid	(2,274)	(857)
Income taxes paid	(5,028)	(674)
Equity investment distribution (note 6)	8,665	3,974
Pension contributions	(1,829)	(2,085)
Change in non-cash operating working capital (note 15)	3,586	658
	14,814	18,410
Investing activities		
Additions to property, plant and equipment	(2,629)	(2,431)
Acquisition of Next Generation Lotteries AS	(93)	(759)
Additions to intangible assets	(5,573)	(5,017)
	(8,295)	(8,207)
Financing activities		
Net repayments of long-term debt	(2,291)	(417)
Change in other non-current liabilities	200	11
Lease principal payments	(1,727)	(1,625)
Deferred financing charges paid	–	(91)
Dividends paid	(1,077)	(1,077)
	(4,895)	(3,199)
Foreign exchange loss on cash held in foreign currency	(69)	(227)
Change in cash position	1,555	6,777
Cash position, beginning of period	1,479	3,517
Cash position, end of period	$ 3,034	$ 10,294

See accompanying notes to condensed consolidated interim financial statements.

1. Reporting entity:

Pollard Banknote Limited ("Pollard") was incorporated under the laws of Canada on March 26, 2010. The address of Pollard's registered office is 140 Otter Street, Winnipeg, Manitoba, Canada, R3T 0M8.

The condensed consolidated interim financial statements of Pollard as at and for the three months ended March 31, 2023, comprise Pollard, Pollard's subsidiaries and its interest in other entities. Pollard is primarily involved in the manufacture and sale of lottery and charitable gaming products and solutions.

The controlling entity of Pollard is Pollard Equities Limited ("Equities"), a privately held company. Equities owns approximately 64.3% of Pollard's outstanding shares.

Pollard's consolidated financial statements at and for the year ended December 31, 2022, are available at www.sedar.com.

The overall impact of seasonality does not have a significant impact on the operations of Pollard.

2. Basis of preparation:

(a) Statement of compliance:

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

On May 11, 2023, Pollard's Board of Directors approved these condensed consolidated interim financial statements.

(b) Basis of preparation:

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

- The pension asset is recognized as the net total of the fair value of plan assets less the present value of the defined benefit obligation.

- The contingent consideration liability is recognized at the present value of the expected payments to be made under the agreement.

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

2. Basis of preparation (continued):

Certain comparative figures for the prior period have been reclassified to conform to the presentation adopted in the current period.

(c) Use of estimates and judgments:

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

In preparing these condensed consolidated interim financial statements, the significant judgments made by management in applying Pollard's accounting policies and the key sources of estimation uncertainty were the same as those applied to the consolidated financial statements at and for the year ended December 31, 2022.

3. Significant accounting policies:

Except for the accounting policies described below, these condensed consolidated interim financial statements follow the same significant accounting policies as described and used in Pollard's consolidated financial statements for the year ended December 31, 2022 and should be read in conjunction with these statements.

(a) Amendments to IAS 12 – Deferred Tax Related to Assets and Liabilities arising from a Single Transaction:

In May 2021, the International Accounting Standards Board ("IASB") issued *Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12).* The amendments narrow the scope of the initial recognition exemption ("IRE") so that it does not apply to transactions that give rise to equal and offsetting temporary differences. As a result, companies will need to recognize a deferred tax asset and a deferred tax liability for temporary differences arising on initial recognition of a lease and a decommissioning provision. The amendments are effective for annual periods beginning on or after January 1, 2023. Pollard has determined that the amendments have not had a material impact on its condensed consolidated interim financial statements.

3. Significant accounting policies (continued):

(b) Presentation of Equity Distribution in the Condensed Consolidated Statements of Cash Flows (IAS 7):

Effective January 1, 2023, Pollard made an election to change its accounting policy regarding the presentation of distributions received from its equity investment in NeoPollard Interactive, LLC ("NPi") in its condensed consolidated statements of cash flows.

The impact of this change is an increase in cash flows from operating activities of $8,665 for the three months ended March 31, 2023 (2022 - $3,974), and an offsetting increase in cash flows used for investing activities. This change in presentation in the condensed consolidated statements of cash flows provides more relevant information to the user as it more appropriately classifies these distributions based on the nature of Pollard's investment in NPi. The comparative figures for the prior period have been reclassified to conform to the presentation adopted in the current period.

4. Future accounting standards:

(a) Amendments to IAS 1 – Classification of Liabilities as Current or Non-current:

In January 2020, the IASB issued amendments to IAS 1 *Presentation of Financial Statements* to clarify the classification of liabilities as current or non-current. For the purposes of non-current classification, the amendments removed the requirement for a right to defer settlement or roll over of a liability for at least twelve months to be unconditional. The 2020 amendments also clarify how a company classifies a liability that includes a counterparty conversion option.

In October 2022, the IASB issued *Non-current Liabilities with Covenants (Amendments to IAS 1)*, to improve the information a company provides about long-term debt with covenants. The amendments reconfirmed that only covenants with which a company must comply on or before the reporting date affect the classification of a liability as current or non-current. Covenants with which a company must comply after the reporting date do not affect liability classification as at that date.

The amendments are effective for annual periods beginning on or after January 1, 2024. Pollard is currently assessing the impact of the amendments on its condensed consolidated interim financial statements.

(In thousands of Canadian dollars, except where otherwise noted and for share amounts)

4. Future accounting standards (continued):

(b) Amendments to International Financial Reporting Standards ("IFRS") 16 – Lease Liability in a Sale and Leaseback:

In September 2022, the IASB issued *Lease Liability in a Sale and Leaseback (Amendments to IFRS 16).* The amendments introduce a new accounting model which impacts how a seller-lessee accounts for variable lease payments that arise in a sale-and-leaseback transaction. The amendments clarify that on initial recognition, the seller-lessee includes variable lease payments when it measures a lease liability arising from a sale-and-leaseback transaction and after initial recognition, the seller-lessee applies the general requirements for subsequent accounting of the lease liability such that it recognizes no gain or loss relating to the right of use it retains. The amendments need to be applied retrospectively.

The amendments are effective for annual periods beginning on or after January 1, 2024. Pollard is currently assessing the impact of the amendments on its condensed consolidated interim financial statements.

5. Inventories:

	March 31, 2023	December 31, 2022
Raw materials	$ 32,149	$ 28,261
Work-in-process	2,283	1,601
Finished goods	29,824	32,270
	$ 64,256	$ 62,132

During the first quarter of 2023, Pollard recorded inventory write-downs of $343 representing an increase in the obsolescence reserves, and inventory write-downs of $341 due to changes in foreign exchange rates.

During the first quarter of 2022, Pollard recorded inventory write-downs of $160 representing an increase in the obsolescence reserves, and inventory write-downs of $66 due to changes in foreign exchange rates.

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

(In thousands of Canadian dollars, except where otherwise noted and for share amounts)

6. Equity investment:

NeoPollard Interactive, LLC

Pollard, in conjunction with NeoGames US, LLP, operates NPi. The entity was established to provide iLottery services in the United States and Canada, excluding the State of Michigan.

Investment in equity accounted entity	Three months ended March 31, 2023	Three months ended March 31, 2022
Balance, beginning of period	$ 549	$ 585
Investment distribution	(8,665)	(3,974)
Equity income	8,604	3,953
Effects of movements in exchange rates	–	(10)
Balance, end of period	$ 488	$ 554

Net Assets	March 31, 2023	December 31, 2022
Current assets	$ 36,966	$ 34,872
Non-current assets	1,676	1,762
Total	$ 38,642	$ 36,634
Current liabilities	$ 37,594	$ 35,400
Non-current liabilities	73	137
Total	$ 37,667	$ 35,537
Net assets – 100%	$ 975	$ 1,097
Attributable to Pollard – 50%	$ 488	$ 549

At March 31, 2023, included in the current assets of NPi is restricted cash relating to amounts held on behalf of iLottery customers of $14,067 (December 31, 2022 – $16,040). There is an offsetting liability included in current liabilities.

Interest in equity accounted entity	Three months ended March 31, 2023	Three months ended March 31, 2022
Revenue – 100%	$ 36,922	$ 22,639
Revenue – attributable to Pollard – 50%	$ 18,461	$ 11,320
Comprehensive income – 100%	$ 16,369	$ 7,202
Comprehensive income – attributable to Pollard(1)	$ 8,604	$ 3,953

(1) Comprehensive income attributable to Pollard is greater than 50% due to services provided to NPi by Pollard. Pollard's share of these transactions is eliminated upon consolidation.

(In thousands of Canadian dollars, except where otherwise noted and for share amounts)

6. Equity investment (continued):

Michigan iLottery

Pollard and NeoGames US, LLP operate the iLottery operation for the Michigan Lottery under a separate joint operating agreement. Pollard recognizes its interest in the joint operation by including its assets, including its 50% share of any assets held jointly, its liabilities, including its 50% share of any liabilities incurred jointly and its 50% share of revenue and expenses.

7. Long-term debt:

		March 31, 2023		December 31, 2022
Credit facility, interest of 6.5% to 6.6% payable monthly, maturing 2025	$	119,590	$	122,058
Deferred financing charges, net of amortization		(338)		(403)
	$	119,252	$	121,655

(a) Credit facility:

Effective December 31, 2021, Pollard renewed its credit facility. The credit facility provides loans of up to $215,000 for its Canadian operations and US$14,000 for its U.S. subsidiaries. The credit facility also includes an accordion feature which can increase the facility by $50,000. The borrowings for the Canadian operations can be denominated in Canadian or U.S. dollars, to a maximum of $215,000 Canadian equivalent. Borrowings under the credit facility bear interest at fixed and floating rates based on Canadian and U.S. prime bank rates, banker's acceptances or LIBOR. At March 31, 2023, the outstanding letters of guarantee drawn under the credit facility were $88 (December 31, 2022 – $88).

Included in the total credit facility balance is a U.S. dollar denominated balance of US$35,400 (December 31, 2022 – US$35,400). As of March 31, 2023, Pollard had unused credit facility available of $114,222 (December 31, 2022 – $111,824).

Under the terms and conditions of the credit facility agreement Pollard is required to maintain certain financial covenants including debt to income before interest, income taxes, amortization, depreciation and certain other items ("Adjusted EBITDA") ratios and certain debt service coverage ratios. At March 31, 2023, Pollard is in compliance with all financial covenants.

Pollard's credit facility is secured by a first security interest in all of the present and after acquired property of Pollard. Under the terms of the agreement the facility is committed for a four-year period, renewable December 31, 2025. Principal payments are not required until maturity. The facility can be prepaid without penalties.

(In thousands of Canadian dollars, except where otherwise noted and for share amounts)

7. Long-term debt (continued):

(b) Economic Development Canada ("EDC") facility:

Effective February 28, 2020, Pollard entered into an agreement with EDC to provide a €15,000 facility whereby Pollard can issue qualifying letters of credit against the EDC facility. The facility is guaranteed by a general indemnity from Pollard. As of March 31, 2023, the outstanding letters of credit drawn on this facility were $13,723 (€9,335). As of December 31, 2022, the outstanding letters of credit drawn on this facility were $13,549 (€9,344).

8. Pension asset:

During the three month period ended March 31, 2023, Pollard recorded a remeasurement gain of $1,189 (net of $447 of income tax) on its defined pension plans. The remeasurement gain resulted from higher than expected returns on plan asset investments, which were partially offset by a decrease in the discount rate.

During the three month period ended March 31, 2022, Pollard recorded a remeasurement gain of $8,930 (net of $3,220 of income tax) on its defined pension plans. The remeasurement gain resulted from an increase in the discount rate, which was partially offset by lower returns than expected on plan asset investments.

9. Share capital:

	Shares		Amount
Authorized			
Unlimited common shares			
Unlimited preferred shares			
Issued			
Balance at January 1, 2022, December 31, 2022 and March 31, 2023	26,917,669	$	149,849

Stock option issuance

On March 7, 2023, the Board of Directors approved the award of 225,000 options to purchase common shares of Pollard for key management personnel. The options were granted on March 10, 2023, and have a seven-year term, vesting 25% per year over the first four years. The exercise price of $21.33 was equal to the closing price of the common shares on March 9, 2023.

Dividends

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

(In thousands of Canadian dollars, except where otherwise noted and for share amounts)

9. Share capital (continued):

On March 7, 2023, a dividend of $0.04 per share was declared, payable on April 14, 2023, to the shareholders of record on March 31, 2023.

10. Revenue and contract balances:

In the following tables, revenue from contracts with customers is disaggregated by geographical segment and product line:

Revenue – geographical segment		Three months ended March 31, 2023		Three months ended March 31, 2022
Canada	$	14,799	$	21,692
United States		81,494		73,727
International		28,340		18,453
Total	$	124,633	$	113,872

Revenue – product lines		Three months ended March 31, 2023		Three months ended March 31, 2022
Lottery	$	92,266	$	86,726
Charitable		18,606		16,181
eGaming systems		13,761		10,965
Total	$	124,633	$	113,872

The following tables provide information about receivables, contract assets and contract liabilities from contracts with customers:

Contract balances		March 31, 2023		December 31, 2022
Trade receivables, which are included in accounts receivable and long-term receivables	$	51,179	$	71,570
Contract assets, which are included in accounts receivable		5,842		4,994
Contract liabilities		2,105		2,159

(In thousands of Canadian dollars, except where otherwise noted and for share amounts)

10. Revenue and contract balances (continued):

Contract liabilities	Three months ended March 31, 2023	Three months ended March 31, 2022
Balance, beginning of period	$ 2,159	$ 2,242
Increases due to cash received	2,018	1,149
Revenue recognized	(2,085)	(1,643)
Effect of movement in exchange rates	13	(27)
Balance, end of period	2,105	1,721
Less: current portion	(2,105)	(1,721)
	$ –	$ –

11. Other expenses:

	Three months ended March 31, 2023	Three months ended March 31, 2022
Contingent consideration fair value adjustment	$ 434	$ 146
Other income	(269)	(137)
	$ 165	$ 9

12. Finance costs and finance income:

Finance costs	Three months ended March 31, 2023	Three months ended March 31, 2022
Interest	$ 2,718	$ 1,786
	$ 2,718	$ 1,786

Finance income	Three months ended March 31, 2023	Three months ended March 31, 2022
Foreign exchange gain	$ 283	$ 460
	$ 283	$ 460

(In thousands of Canadian dollars, except where otherwise noted and for share amounts)

13. Income taxes:

Reconciliation of effective tax rate		Three months ended March 31, 2023		Three months ended March 31, 2022
Net income for the period		$ 4,826		$ 6,425
Total income tax expense		293		1,592
Income before income taxes		$ 5,119		$ 8,017
Income tax using Pollard's domestic tax rate	27.0%	$ 1,382	27.0%	$ 2,164
Effect of tax rates in foreign jurisdictions	(15.6%)	(797)	(5.9%)	(470)
Non-deductible (taxable) amounts	(4.2%)	(215)	0.4%	34
Effect of non-taxable items related to foreign exchange	(1.8%)	(94)	(2.7%)	(215)
Other items	0.3%	17	1.0%	79
	5.7%	$ 293	19.9%	$ 1,592

14. Net income per share:

	Three months ended March 31, 2023	Three months ended March 31, 2022
Net income attributable to shareholders	$ 4,826	$ 6,425
Weighted average number of shares – basic	26,917,669	26,917,669
Weighted average impact of share options	365,590	312,500
Weighted average number of shares – diluted	27,283,259	27,230,169
Net income per share – basic and diluted	$ 0.18	$ 0.24

(In thousands of Canadian dollars, except where otherwise noted and for share amounts)

15. Supplementary cash flow information:

	Three months ended March 31, 2023	Three months ended March 31, 2022
Change in non-cash operating working capital:		
Accounts receivable	$ 16,534	$ 4,027
Inventories	(2,266)	(3,259)
Prepaid expenses and deposits	(2,315)	(1,871)
Income taxes payable	(90)	(60)
Accounts payable and accrued liabilities	(8,210)	2,315
Contract liabilities	(67)	(494)
	$ 3,586	$ 658

16. Related party transactions:

Pollard Equities Limited and affiliates

During the quarter ended March 31, 2023, Pollard paid property rent of $835 (2022 – $827) and $120 (2022 – $105) in plane charter costs to affiliates of Equities.

During the quarter, Equities paid Pollard $18 (2022 – $18) for accounting and administration fees.

At March 31, 2023, included in accounts payable and accrued liabilities is an amount owing to Equities and its affiliates for rent, expenses and other items of $nil (December 31, 2022 – $505).

Included within property, plant and equipment and lease liabilities on the condensed consolidated statements of financial position are right-of-use assets and corresponding liabilities for premises leased to Pollard from Equities. As at March 31, 2023, the net book value of the right-of-use assets was $2,756 (December 31, 2022 – $3,545) and the present value of the lease liabilities was $2,680 (December 31, 2022 – $3,681).

NeoGames US, LLP and affiliates

During the quarter ended March 31, 2023, Pollard reimbursed operating costs and paid software royalties of $4,040 (2022 – $3,354) to its iLottery partner, which are recorded in cost of sales and equity investment income.

At March 31, 2023, included in accounts payable and accrued liabilities is a net amount owing to Pollard's iLottery partner of $3,185 (December 31, 2022 – $3,097) for its share of profits and reimbursement of operating costs, net of capital investments.

(In thousands of Canadian dollars, except where otherwise noted and for share amounts)

16. Related party transactions (continued):

At March 31, 2023, included in restricted cash and accounts payable and accrued liabilities is an amount owing to Pollard's iLottery partner of $5,195 (December 31, 2022 – $5,112) for funds relating to contractual performance guarantees.

Key management personnel

Key management personnel are those having authority and responsibility for planning, directing and controlling the activities of the company. The Board of Directors and the Executive Committee are considered key management personnel.

Key management personnel compensation comprised:

	Three months ended March 31, 2023	Three months ended March 31, 2022
Salaries, incentives and benefits	$ 978	$ 950
Share based compensation	273	152
Expenses related to defined benefit plans	189	192
	$ 1,440	$ 1,294

As at March 31, 2023, key management personnel of Pollard, as a group, beneficially owned or exercised control or direction over 17,390,538 common shares of Pollard.

17. Financial risk management:

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

Credit risk
Liquidity risk
Currency risk
Interest rate risk

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

(In thousands of Canadian dollars, except where otherwise noted and for share amounts)

17. Financial risk management (continued):

Credit risk

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

		March 31, 2023		December 31, 2022
Current	$	59,109	$	75,547
Past due for 1 to 60 days		2,849		2,715
Past due for more than 60 days		1,572		1,947
Less: allowance for losses		(468)		(411)
	$	63,062	$	79,798
Less: long-term receivables		(472)		(488)
	$	62,590	$	79,310

Liquidity risk

Liquidity risk is the risk that Pollard will not be able to meet its financial obligations as they fall due. Pollard's approach is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due. The 2023 requirements for capital expenditures, working capital and dividends are expected to be financed from cash flow provided by operating activities and the unused portion of Pollard's credit facility. Pollard enters into contractual obligations in the normal course of business operations.

Currency risk

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

Translation differences arise when foreign currency monetary assets and liabilities are translated at foreign exchange rates that change over time. At March 31, 2023, the amount of financial liabilities denominated in U.S. dollars exceeded the amount of financial assets denominated in U.S. dollars by approximately $70,187 (December 31, 2022 – $71,930). A 50 basis point weakening/strengthening in the value of the Canadian dollar relative to the U.S. dollar would result in a decrease/increase in income before taxes of approximately $351 for the three months ended March 31, 2023 (2022 – $263).

17. Financial risk management (continued):

Pollard utilizes a number of strategies to mitigate its exposure to currency risk. Five manufacturing facilities are located in the U.S. and a significant amount of cost inputs for all production facilities are denominated in U.S. dollars, offsetting a large portion of the U.S. dollar revenue in a natural hedge.

Pollard also uses financial hedges, including foreign currency contracts, to help manage foreign currency risk. At March 31, 2023, Pollard had no outstanding foreign currency contracts.

Interest rate risk

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

A 50 basis point decrease/increase in interest rates would result in an increase/decrease in income before income taxes of approximately $149 for the three months ended March 31, 2023 (2022 – $143).