Condensed Consolidated Interim Financial Statements of

POLLARD BANKNOTE LIMITED

(unaudited)

Six months ended June 30, 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)

		June 30, 2023		December 31, 2022
Assets				
Current assets				
Cash	$	13,636	$	1,479
Restricted cash		19,526		25,030
Accounts receivable (note 17)		56,979		79,310
Inventories (note 5)		65,662		62,132
Prepaid expenses and deposits		10,086		6,917
Income taxes receivable		12,313		10,065
Total current assets		178,202		184,933
Non-current assets				
Long-term receivables (note 17)		571		488
Property, plant and equipment		98,499		100,620
Equity investment (note 6)		604		549
Goodwill		109,930		111,156
Intangible assets		100,506		99,462
Deferred income taxes		2,808		1,070
Pension asset (note 8)		1,889		988
Total non-current assets		314,807		314,333
Total assets	$	493,009	$	499,266
Liabilities and Shareholders' Equity				
Current liabilities				
Accounts payable and accrued liabilities	$	75,573	$	89,523
Dividends payable		1,077		1,077
Income taxes payable		–		6,189
Current portion lease liabilities		4,578		6,081
Contract liabilities (note 10)		2,660		2,159
Total current liabilities		83,888		105,029
Non-current liabilities				
Lease liabilities		9,119		7,539
Deferred income taxes		5,662		12,623
Long-term debt (note 7)		135,516		121,655
Other non-current liabilities		552		486
Total non-current liabilities		150,849		142,303
Shareholders' equity				
Share capital (note 9)		149,863		149,849
Reserves		3,731		8,913
Retained earnings		104,678		93,172
Total shareholders' equity		258,272		251,934
Total liabilities and shareholders' equity	$	493,009	$	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 June 30, 2023	Three months ended June 30, 2022	Six months ended June 30, 2023	Six months ended June 30, 2022
Sales (note 10)	$ 130,306	$ 115,944	$ 254,939	$ 229,816
Cost of sales	110,161	95,051	217,700	187,328
Gross profit	20,145	20,893	37,239	42,488
Administration	14,333	12,238	27,697	24,328
Selling	5,055	4,206	9,670	8,312
Equity investment income (note 6)	(9,228)	(5,066)	(17,831)	(9,019)
Other expenses (note 11)	109	789	274	798
Income from operations	9,876	8,726	17,429	18,069
Finance costs (note 12)	2,753	4,744	5,472	6,530
Finance income (note 12)	(1,698)	–	(1,981)	(460)
Income before income taxes	8,821	3,982	13,938	11,999
Income taxes (note 13)				
Current	7,575	2,800	10,567	5,474
Deferred reduction	(6,294)	(1,278)	(8,995)	(2,360)
	1,281	1,522	1,572	3,114
Net income	$ 7,540	$ 2,460	$ 12,366	$ 8,885
Net income per share – basic (note 14)	$ 0.28	$ 0.09	$ 0.46	$ 0.33
Net income per share – diluted (note 14)	$ 0.27	$ 0.09	$ 0.45	$ 0.33

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 June 30, 2023	Three months ended June 30, 2022	Six months ended June 30, 2023	Six months ended June 30, 2022
Net income	$ 7,540	$ 2,460	$ 12,366	$ 8,885
Other comprehensive income (loss):				
Items that are or may be reclassified to profit and loss:				
Foreign currency translation differences – foreign operations	(5,443)	3,561	(5,182)	(1,282)
Items that will never be reclassified to profit and loss:				
Defined benefit plans remeasurements, net of income taxes (note 8 & note 13)	(281)	4,443	908	13,373
Other comprehensive income (loss)	(5,724)	8,004	(4,274)	12,091
Comprehensive income	$ 1,816	$ 10,464	$ 8,092	$ 20,976

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 six months ended June 30, 2023

		Share capital	Translation reserve	Retained earnings	Total equity
Balance at December 31, 2022	$	149,849	8,913	93,172	251,934
Net income		–	–	12,366	12,366
Other comprehensive income (loss):					
Foreign currency translation differences – foreign operations		–	(5,182)	–	(5,182)
Defined benefit plans remeasurements, net of income taxes (note 8 & note 13)		–	–	908	908
Total other comprehensive income (loss)	$	–	(5,182)	908	(4,274)
Total comprehensive income (loss)	$	–	(5,182)	13,274	8,092
Issue of common shares	$	14	–	(14)	–
Share based compensation		–	–	400	400
Dividends (note 9)		–	–	(2,154)	(2,154)
Balance at June 30, 2023	$	149,863	3,731	104,678	258,272

For the six months ended June 30, 2022

		Share capital	Translation reserve	Retained earnings	Total equity
Balance at December 31, 2021	$	149,849	(1,579)	58,687	206,957
Net income		–	–	8,885	8,885
Other comprehensive income (loss):					
Foreign currency translation differences – foreign operations		–	(1,282)	–	(1,282)
Defined benefit plans remeasurements, net of income taxes		–	–	13,373	13,373
Total other comprehensive income (loss)	$	–	(1,282)	13,373	12,091
Total comprehensive income (loss)	$	–	(1,282)	22,258	20,976
Share based compensation	$	–	–	203	203
Dividends		–	–	(2,153)	(2,153)
Balance at June 30, 2022	$	149,849	(2,861)	78,995	225,983

See accompanying notes to condensed consolidated interim financial statements.

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

	Six months ended June 30, 2023	Six months ended June 30, 2022
Cash increase (decrease)		
Operating activities		
Net income	$ 12,366	$ 8,885
Adjustments		
Income taxes expense	1,572	3,114
Amortization and depreciation	22,484	19,381
Interest expense	5,472	3,925
Unrealized foreign exchange (gain) loss	(1,837)	1,761
Equity investment income (note 6)	(17,831)	(9,019)
Pension expense	3,427	4,679
Contingent consideration fair value adjustment (note 11)	691	877
Interest paid	(4,724)	(2,082)
Income taxes paid	(18,923)	(8,535)
Equity investment distribution (note 6)	17,756	9,066
Pension contributions	(3,053)	(4,286)
Change in non-cash operating working capital (note 15)	16,438	(10,004)
	33,838	17,762
Investing activities		
Additions to property, plant and equipment	(7,888)	(5,389)
Contingent consideration paid for acquisition of Compliant Gaming, LLC	(11,765)	–
Acquisition of Next Generation Lotteries AS	(93)	(846)
Additions to intangible assets	(11,329)	(9,832)
	(31,075)	(16,067)
Financing activities		
Net borrowings of long-term debt	14,991	13,446
Change in other non-current liabilities	74	(31)
Lease principal payments	(3,496)	(3,131)
Deferred financing charges paid	(1)	(94)
Dividends paid	(2,154)	(2,153)
	9,414	8,037
Foreign exchange loss on cash held in foreign currency	(20)	(122)
Change in cash position	12,157	9,610
Cash position, beginning of period	1,479	3,517
Cash position, end of period	$ 13,636	$ 13,127

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 six months ended June 30, 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 64.2% of Pollard's outstanding shares.

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

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 August 10, 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 as 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 $17,756 for the six months ended June 30, 2023 (2022 – $9,066), 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:

		June 30, 2023		December 31, 2022
Raw materials	$	32,120	$	28,261
Work-in-process		3,890		1,601
Finished goods		29,652		32,270
	$	65,662	$	62,132

During the second quarter of 2023, Pollard recorded inventory write-downs of $677, representing an increase in the obsolescence reserves, and write-downs of $170 due to changes in foreign exchange rates. During the six months ended June 30, 2023, Pollard recorded inventory write-downs of $1,020 representing an increase in the obsolescence reserves, and write-downs of $511 due to changes in foreign exchange rates.

During the second quarter of 2022, Pollard recorded inventory write-downs of $235, representing an increase in the obsolescence reserves, and reversal of previous write-downs of $68 due to changes in foreign exchange rates. During the six months ended June 30, 2022, Pollard recorded inventory write-downs of $395 representing an increase in the obsolescence reserves, and reversal of previous write-downs of $2 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		Six months ended June 30, 2023		Six months ended June 30, 2022
Balance, beginning of period	$	549	$	585
Investment distribution		(17,756)		(9,066)
Equity income		17,831		9,019
Effects of movements in exchange rates		(20)		10
Balance, end of period	$	604	$	548

Net Assets		June 30, 2023		December 31, 2022
Current assets	$	41,582	$	34,872
Non-current assets		1,622		1,762
Total	$	43,204	$	36,634
Current liabilities	$	41,987	$	35,400
Non-current liabilities		9		137
Total	$	41,996	$	35,537
Net assets – 100%	$	1,208	$	1,097
Attributable to Pollard – 50%	$	604	$	549

At June 30, 2023, included in the current assets of NPi is restricted cash relating to amounts held on behalf of iLottery customers of $19,238 (December 31, 2022 – $16,040). There is an offsetting liability included in current liabilities.

Interest in equity accounted entity		Six months ended June 30, 2023		Six months ended June 30, 2022
Revenue – 100%	$	73,933	$	47,425
Revenue – attributable to Pollard – 50%	$	36,967	$	23,713
Comprehensive income – 100%	$	33,894	$	16,566
Comprehensive income – attributable to Pollard(1)	$	17,831	$	9,019

(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:

		June 30, 2023		December 31, 2022
Credit facility, interest of 6.6% to 8.5%, payable monthly, maturing 2025	$	135,810	$	122,058
Deferred financing charges, net of amortization		(294)		(403)
	$	135,516	$	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 Secured Overnight Financing Rate ("SOFR"). At June 30, 2023, the outstanding letters of guarantee drawn under the credit facility were $86 (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 June 30, 2023, Pollard had unused credit facility available of $97,584 (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. As at June 30, 2023, Pollard was 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.

7. Long-term debt (continued):

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

Effective November 22, 2022, Pollard renewed its agreement with EDC. This agreement provides 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 June 30, 2023, the outstanding letters of credit drawn on this facility were $13,655 (€9,483). 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 June 30, 2023, Pollard recorded a remeasurement loss of $281 (net of $124 of income taxes) on its defined pension plans. The remeasurement loss resulted from a decrease in the discount rate, which was partially offset by higher than expected returns on plan asset investments.

During the three month period ended June 30, 2022, Pollard recorded a remeasurement gain of $4,443 (net of $1,579 of income taxes) on its defined pension plans. The remeasurement gain resulted from an increase in the discount rate, which was partially offset by lower than expected returns on plan asset investments.

During the six month period ended June 30, 2023, Pollard recorded a remeasurement gain of $908 (net of $324 of income taxes) 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 six month period ended June 30, 2022, Pollard recorded a remeasurement gain of $13,373 (net of $4,800 of income taxes) on its defined pension plans. The remeasurement gain resulted from an increase in the discount rate, which was partially offset by lower than expected returns on plan asset investments.

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

9. Share capital:

	Shares		Amount
Authorized			
Unlimited common shares			
Unlimited preferred shares			
Issued			
Balance at January 1, 2022 and December 31, 2022	26,917,669	$	149,849
Stock option exercises	6,250		14
Balance at June 30, 2023	26,923,919	$	149,863

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.

On May 11, 2023, a dividend of $0.04 per share was declared, payable on July 14, 2023, to the shareholders of record on June 30, 2023.

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

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	Six months ended June 30, 2023	Six months ended June 30, 2022
Canada	$ 37,349	$ 43,523
United States	167,640	149,645
International	49,950	36,648
Total	$ 254,939	$ 229,816

Revenue – product lines	Six months ended June 30, 2023	Six months ended June 30, 2022
Lottery	$ 191,315	$ 173,624
Charitable	35,959	32,949
eGaming systems	27,665	23,243
Total	$ 254,939	$ 229,816

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

Contract balances	June 30, 2023	December 31, 2022
Trade receivables, which are included in accounts receivable and long-term receivables	$ 45,928	$ 71,570
Contract assets, which are included in accounts receivable	6,879	4,994
Contract liabilities	2,660	2,159

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

10. Revenue and contract balances (continued):

Contract liabilities	Six months ended June 30, 2023	Six months ended June 30, 2022
Balance, beginning of period	$ 2,159	$ 2,242
Increases due to cash received	2,656	2,540
Revenue recognized	(2,159)	(2,840)
Effect of movement in exchange rates	4	(47)
Balance, end of period	2,660	1,895
Less: current portion	(2,660)	(1,895)
	$ –	$ –

11. Other expenses:

	Three months ended June 30, 2023	Three months ended June 30, 2022	Six months ended June 30, 2023	Six months ended June 30, 2022
Contingent consideration fair value adjustment	$ 257	$ 731	$ 691	$ 877
Other (income) expenses	(148)	58	(417)	(79)
	$ 109	$ 789	$ 274	$ 798

12. Finance costs and finance income:

Finance costs	Three months ended June 30, 2023	Three months ended June 30, 2022	Six months ended June 30, 2023	Six months ended June 30, 2022
Interest	$ 2,753	$ 2,139	$ 5,472	$ 3,925
Foreign exchange loss	–	2,605	–	2,605
	$ 2,753	$ 4,744	$ 5,472	$ 6,530

Finance income	Three months ended June 30, 2023	Three months ended June 30, 2022	Six months ended June 30, 2023	Six months ended June 30, 2022
Foreign exchange gain	$ 1,698	$ –	$ 1,981	$ 460
	$ 1,698	$ –	$ 1,981	$ 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 June 30, 2023		Three months ended June 30, 2022
Net income for the period		$ 7,540		$ 2,460
Total income tax expense		1,281		1,522
Income before income taxes		$ 8,821		$ 3,982
Income tax using Pollard's domestic tax rate	27.0%	$ 2,382	27.0%	$ 1,076
Effect of tax rates in foreign jurisdictions	(9.6%)	(845)	(12.3%)	(491)
Non-deductible (non-taxable) amounts	(1.0%)	(87)	(0.5%)	(21)
Changes in enacted United Kingdom corporate tax rates	0.0%	–	11.6%	461
Effect of non-taxable items related to foreign exchange	0.6%	52	15.8%	631
Other items	(2.5%)	(221)	(3.4%)	(134)
	14.5%	$ 1,281	38.2%	$ 1,522

Reconciliation of effective tax rate		Six months ended June 30, 2023		Six months ended June 30, 2022
Net income for the period		$ 12,366		$ 8,885
Total income tax expense		1,572		3,114
Income before income taxes		$ 13,938		$ 11,999
Income tax using Pollard's domestic tax rate	27.0%	$ 3,763	27.0%	$ 3,240
Effect of tax rates in foreign jurisdictions	(11.8%)	(1,642)	(8.0%)	(961)
Non-deductible (non-taxable) amounts	(2.1%)	(301)	0.1%	13
Changes in enacted United Kingdom corporate tax rates	0.0%	–	3.9%	461
Effect of non-taxable items related to foreign exchange	(0.3%)	(44)	3.5%	416
Other items	(1.5%)	(204)	(0.5%)	(55)
	11.3%	$ 1,572	26.0%	$ 3,114

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

14. Net income per share:

	Three months ended June 30, 2023	Three months ended June 30, 2022
Net income attributable to shareholders	$ 7,540	$ 2,460
Weighted average number of shares – basic	26,920,169	26,917,669
Weighted average impact of share options	535,000	312,500
Weighted average number of shares – diluted	27,455,169	27,230,169
Net income per share – basic	$ 0.28	$ 0.09
Net income per share – diluted	$ 0.27	$ 0.09

	Six months ended June 30, 2023	Six months ended June 30, 2022
Net income attributable to shareholders	$ 12,366	$ 8,885
Weighted average number of shares – basic	26,918,919	26,917,669
Weighted average impact of share options	451,250	312,500
Weighted average number of shares – diluted	27,370,169	27,230,169
Net income per share – basic	$ 0.46	$ 0.33
Net income per share – diluted	$ 0.45	$ 0.33

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

15. Supplementary cash flow information:

		Six months ended June 30, 2023		Six months ended June 30, 2022
Change in non-cash operating working capital:				
Accounts receivable	$	20,776	$	7,305
Inventories		(4,257)		(8,705)
Prepaid expenses and deposits		(3,419)		(1,287)
Income taxes payable		(180)		(874)
Accounts payable and accrued liabilities		3,021		(6,143)
Contract liabilities		497		(300)
	$	16,438	$	(10,004)

16. Related party transactions:

Pollard Equities Limited and affiliates

During the quarter ended June 30, 2023, Pollard paid property rent of $836 (2022 – $827) and $80 (2022 – $105) in plane charter costs to affiliates of Equities. During the six months ended June 30, 2023, Pollard paid property rent of $1,671 (2022 – $1,654) and $200 (2022 – $210) in plane charter costs to affiliates of Equities.

During the quarter, Equities paid Pollard $18 (2022 - $18) for accounting and administration fees. During the six months ended June 30, 2023, Equities paid Pollard $36 (2022 – $36) for accounting and administration fees.

As at June 30, 2023, included in accounts payable and accrued liabilities is an amount owing to Equities and its affiliates for rent, expenses and other items of $221 (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 June 30, 2023, the net book value of the right-of-use assets was $1,969 (December 31, 2022 – $3,545) and the present value of the lease liabilities was $2,048 (December 31, 2022 – $3,681).

NeoGames US, LLP and affiliates

During the quarter ended June 30, 2023, Pollard reimbursed operating costs and paid software royalties of $3,928 (2022 – $3,240) to its iLottery partner. During the six months ended June 30, 2023, Pollard reimbursed operating costs and paid software royalties of $7,968 (2022 – $6,594) to its iLottery partner. These costs have been recorded in cost of sales and equity investment income.

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

16. Related party transactions (continued):

At June 30, 2023, included in accounts payable and accrued liabilities is a net amount owing to Pollard's iLottery partner of $3,573 (December 31, 2022 – $3,097) for its share of profits and reimbursement of operating costs, net of capital investments.

At June 30, 2023, included in restricted cash and accounts payable and accrued liabilities is an amount owing to Pollard's iLottery partner of $5,079 (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 June 30, 2023	Three months ended June 30, 2022	Six months ended June 30, 2023	Six months ended June 30, 2022
Salaries, incentives and benefits	$ 1,295	$ 916	$ 2,323	$ 1,866
Share based compensation	319	80	592	232
Expenses related to defined benefit plans	133	218	322	410
	$ 1,747	$ 1,214	$ 3,237	$ 2,508

As at June 30, 2023, key management personnel of Pollard, as a group, beneficially owned or exercised control or direction over 17,386,788 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

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

17. Financial risk management (continued):

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.

Credit risk

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

	June 30, 2023	December 31, 2022
Current	$ 54,766	$ 75,547
Past due for 1 to 60 days	1,030	2,715
Past due for more than 60 days	2,259	1,947
Less: Allowance for losses	(505)	(411)
	$ 57,550	$ 79,798
Less: long-term receivables	(571)	(488)
	$ 56,979	$ 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.

17. Financial risk management (continued):

Translation differences arise when foreign currency monetary assets and liabilities are translated at foreign exchange rates that change over time. At June 30, 2023, the amount of financial liabilities denominated in U.S. dollars exceeded the amount of financial assets denominated in U.S. dollars by approximately $73,708 (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 $369 for the three and six months ended June 30, 2023 (2022 – $284).

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 June 30, 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 $169 for the three months ended June 30, 2023 (2022 – $163) and approximately $340 for the six months ended June 30, 2023 (2022 – $325).