



**Winpak Ltd.**  
**Interim Condensed Consolidated Financial Statements**  
**First Quarter Ended: March 31, 2019**

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



**Winpak Ltd.**  
**Condensed Consolidated Balance Sheets**  
*(thousands of US dollars) (unaudited)*

|                                                                   | Note | March 31<br>2019 | December 30<br>2018* |
|-------------------------------------------------------------------|------|------------------|----------------------|
| <b>Assets</b>                                                     |      |                  |                      |
| <b>Current assets:</b>                                            |      |                  |                      |
| Cash and cash equivalents                                         |      | 362,639          | 344,322              |
| Trade and other receivables                                       | 13   | 133,661          | 131,851              |
| Income taxes receivable                                           |      | 694              | 1,294                |
| Inventories                                                       | 8    | 128,699          | 132,318              |
| Prepaid expenses                                                  |      | 3,974            | 2,761                |
| Derivative financial instruments                                  |      | 5                | -                    |
|                                                                   |      | <u>629,672</u>   | <u>612,546</u>       |
| <b>Non-current assets:</b>                                        |      |                  |                      |
| Property, plant and equipment                                     | 9    | 461,509          | 453,867              |
| Intangible assets                                                 | 9    | 14,215           | 14,311               |
| Employee benefit plan assets                                      |      | 9,087            | 7,507                |
| Deferred tax assets                                               |      | 702              | 707                  |
|                                                                   |      | <u>485,513</u>   | <u>476,392</u>       |
| <b>Total assets</b>                                               |      | <u>1,115,185</u> | <u>1,088,938</u>     |
| <b>Equity and Liabilities</b>                                     |      |                  |                      |
| <b>Current liabilities:</b>                                       |      |                  |                      |
| Trade payables and other liabilities                              |      | 62,900           | 63,687               |
| Contract liabilities                                              |      | 1,073            | 3,031                |
| Income taxes payable                                              |      | 4,839            | 3,753                |
| Derivative financial instruments                                  |      | 911              | 2,697                |
|                                                                   |      | <u>69,723</u>    | <u>73,168</u>        |
| <b>Non-current liabilities:</b>                                   |      |                  |                      |
| Employee benefit plan liabilities                                 |      | 11,402           | 11,108               |
| Deferred income                                                   |      | 14,598           | 14,786               |
| Provisions and other long-term liabilities                        |      | 696              | 660                  |
| Deferred tax liabilities                                          |      | 41,675           | 41,313               |
|                                                                   |      | <u>68,371</u>    | <u>67,867</u>        |
| <b>Total liabilities</b>                                          |      | <u>138,094</u>   | <u>141,035</u>       |
| <b>Equity:</b>                                                    |      |                  |                      |
| Share capital                                                     |      | 29,195           | 29,195               |
| Reserves                                                          |      | (804)            | (2,264)              |
| Retained earnings                                                 |      | 920,248          | 893,279              |
| <b>Total equity attributable to equity holders of the Company</b> |      | <u>948,639</u>   | <u>920,210</u>       |
| <b>Non-controlling interests</b>                                  |      | <u>28,452</u>    | <u>27,693</u>        |
| <b>Total equity</b>                                               |      | <u>977,091</u>   | <u>947,903</u>       |
| <b>Total equity and liabilities</b>                               |      | <u>1,115,185</u> | <u>1,088,938</u>     |

\*The Company has initially applied IFRS 16 "Leases" at December 31, 2018. Under the transition method chosen by the Company, comparative information has not been restated. See note 3.

See accompanying notes to condensed consolidated financial statements.

**Winpak Ltd.**
**Condensed Consolidated Statements of Income**
*(thousands of US dollars, except per share amounts) (unaudited)*

|                                                     | Note | Quarter Ended    |                  |
|-----------------------------------------------------|------|------------------|------------------|
|                                                     |      | March 31<br>2019 | April 1<br>2018* |
| Revenue                                             | 5    | 224,035          | 221,665          |
| Cost of sales                                       |      | (154,905)        | (156,023)        |
| Gross profit                                        |      | 69,130           | 65,642           |
| Sales, marketing and distribution expenses          |      | (17,689)         | (17,645)         |
| General and administrative expenses                 |      | (8,634)          | (7,973)          |
| Research and technical expenses                     |      | (4,077)          | (4,072)          |
| Pre-production expenses                             |      | -                | (115)            |
| Other (expenses) income                             | 7    | (144)            | 216              |
| <b>Income from operations</b>                       |      | 38,586           | 36,053           |
| Finance income                                      |      | 2,106            | 829              |
| Finance expense                                     |      | (969)            | (880)            |
| Income before income taxes                          |      | 39,723           | 36,002           |
| Income tax expense                                  |      | (10,535)         | (9,135)          |
| <b>Net income for the period</b>                    |      | 29,188           | 26,867           |
| <b>Attributable to:</b>                             |      |                  |                  |
| Equity holders of the Company                       |      | 28,429           | 26,361           |
| Non-controlling interests                           |      | 759              | 506              |
|                                                     |      | 29,188           | 26,867           |
| <b>Basic and diluted earnings per share - cents</b> | 11   | 44               | 41               |

**Condensed Consolidated Statements of Comprehensive Income**
*(thousands of US dollars) (unaudited)*

|                                                                                        | Note | Quarter Ended    |                  |
|----------------------------------------------------------------------------------------|------|------------------|------------------|
|                                                                                        |      | March 31<br>2019 | April 1<br>2018* |
| <b>Net income for the period</b>                                                       |      | 29,188           | 26,867           |
| <u>Items that will not be reclassified to the statements of income:</u>                |      |                  |                  |
| Cash flow hedge gains recognized                                                       |      | 459              | 101              |
| Cash flow hedge losses (gains) transferred to property, plant and equipment            |      | 95               | (235)            |
| Income tax effect                                                                      |      | -                | -                |
|                                                                                        |      | 554              | (134)            |
| <u>Items that are or may be reclassified subsequently to the statements of income:</u> |      |                  |                  |
| Cash flow hedge gains (losses) recognized                                              |      | 691              | (507)            |
| Cash flow hedge losses (gains) transferred to the statements of income                 | 7    | 546              | (536)            |
| Income tax effect                                                                      |      | (331)            | 279              |
|                                                                                        |      | 906              | (764)            |
| <b>Other comprehensive income (loss) for the period - net of income tax</b>            |      | 1,460            | (898)            |
| <b>Comprehensive income for the period</b>                                             |      | 30,648           | 25,969           |
| <b>Attributable to:</b>                                                                |      |                  |                  |
| Equity holders of the Company                                                          |      | 29,889           | 25,463           |
| Non-controlling interests                                                              |      | 759              | 506              |
|                                                                                        |      | 30,648           | 25,969           |

\*The Company has initially applied IFRS 16 "Leases" at December 31, 2018. Under the transition method chosen by the Company, comparative information has not been restated. See note 3.

See accompanying notes to condensed consolidated financial statements.

Winpak Ltd.

**Condensed Consolidated Statements of Changes in Equity**

(thousands of US dollars) (unaudited)

|                                                                            | Note | Attributable to equity holders of the Company |          |                   |         |        | Non-controlling interests | Total equity |
|----------------------------------------------------------------------------|------|-----------------------------------------------|----------|-------------------|---------|--------|---------------------------|--------------|
|                                                                            |      | Share capital                                 | Reserves | Retained earnings | Total   |        |                           |              |
| <b>Balance at January 1, 2018*</b>                                         |      | 29,195                                        | 596      | 788,636           | 818,427 | 25,037 |                           | 843,464      |
| <b>Comprehensive (loss) income for the period</b>                          |      |                                               |          |                   |         |        |                           |              |
| Cash flow hedge losses, net of tax                                         |      | -                                             | (270)    | -                 | (270)   | -      |                           | (270)        |
| Cash flow hedge gains transferred to the statements of income, net of tax  |      | -                                             | (393)    | -                 | (393)   | -      |                           | (393)        |
| Cash flow hedge gains transferred to property, plant and equipment         |      | -                                             | (235)    | -                 | (235)   | -      |                           | (235)        |
| <b>Other comprehensive loss</b>                                            |      | -                                             | (898)    | -                 | (898)   | -      |                           | (898)        |
| <b>Net income for the period</b>                                           |      | -                                             | -        | 26,361            | 26,361  | 506    |                           | 26,867       |
| <b>Comprehensive (loss) income for the period</b>                          |      | -                                             | (898)    | 26,361            | 25,463  | 506    |                           | 25,969       |
| <b>Dividends</b>                                                           | 10   | -                                             | -        | (1,513)           | (1,513) | -      |                           | (1,513)      |
| <b>Balance at April 1, 2018*</b>                                           |      | 29,195                                        | (302)    | 813,484           | 842,377 | 25,543 |                           | 867,920      |
| <b>Balance at December 31, 2018</b>                                        |      | 29,195                                        | (2,264)  | 893,279           | 920,210 | 27,693 |                           | 947,903      |
| <b>Comprehensive income for the period</b>                                 |      |                                               |          |                   |         |        |                           |              |
| Cash flow hedge gains, net of tax                                          |      | -                                             | 965      | -                 | 965     | -      |                           | 965          |
| Cash flow hedge losses transferred to the statements of income, net of tax |      | -                                             | 400      | -                 | 400     | -      |                           | 400          |
| Cash flow hedge losses transferred to property, plant and equipment        |      | -                                             | 95       | -                 | 95      | -      |                           | 95           |
| <b>Other comprehensive income</b>                                          |      | -                                             | 1,460    | -                 | 1,460   | -      |                           | 1,460        |
| <b>Net income for the period</b>                                           |      | -                                             | -        | 28,429            | 28,429  | 759    |                           | 29,188       |
| <b>Comprehensive income for the period</b>                                 |      | -                                             | 1,460    | 28,429            | 29,889  | 759    |                           | 30,648       |
| <b>Dividends</b>                                                           | 10   | -                                             | -        | (1,460)           | (1,460) | -      |                           | (1,460)      |
| <b>Balance at March 31, 2019</b>                                           |      | 29,195                                        | (804)    | 920,248           | 948,639 | 28,452 |                           | 977,091      |

\*The Company has initially applied IFRS 16 "Leases" at December 31, 2018. Under the transition method chosen by the Company, comparative information has not been restated. See note 3.

See accompanying notes to condensed consolidated financial statements.



Winpak Ltd.

**Condensed Consolidated Statements of Cash Flows**

(thousands of US dollars) (unaudited)

|                                                          | Quarter Ended |          |
|----------------------------------------------------------|---------------|----------|
|                                                          | March 31      | April 1  |
| Note                                                     | 2019          | 2018*    |
| <b>Cash provided by (used in):</b>                       |               |          |
| <b>Operating activities:</b>                             |               |          |
| Net income for the period                                | 29,188        | 26,867   |
| Items not involving cash:                                |               |          |
| Depreciation                                             | 10,418        | 10,123   |
| Amortization - deferred income                           | (372)         | (388)    |
| Amortization - intangible assets                         | 112           | 144      |
| Employee defined benefit plan expenses                   | 856           | 932      |
| Net finance (income) expense                             | (1,137)       | 51       |
| Income tax expense                                       | 10,535        | 9,135    |
| Other                                                    | (739)         | (414)    |
| Cash flow from operating activities before the following | 48,861        | 46,450   |
| Change in working capital:                               |               |          |
| Trade and other receivables                              | (1,810)       | (9,438)  |
| Inventories                                              | 3,619         | (1,339)  |
| Prepaid expenses                                         | (1,213)       | (1,527)  |
| Trade payables and other liabilities                     | (1,324)       | 539      |
| Contract liabilities                                     | (1,958)       | 1,315    |
| Employee defined benefit plan contributions              | (1,984)       | (1,709)  |
| Income tax paid                                          | (8,251)       | (8,354)  |
| Interest received                                        | 2,132         | 810      |
| Interest paid                                            | (889)         | (775)    |
| Net cash from operating activities                       | 37,183        | 25,972   |
| <b>Investing activities:</b>                             |               |          |
| Acquisition of property, plant and equipment - net       | (17,315)      | (12,460) |
| Acquisition of intangible assets                         | (18)          | (31)     |
|                                                          | (17,333)      | (12,491) |
| <b>Financing activities:</b>                             |               |          |
| Payment of lease liabilities                             | (104)         | -        |
| Dividends paid                                           | (1,429)       | (1,550)  |
| 10                                                       | (1,533)       | (1,550)  |
| <b>Change in cash and cash equivalents</b>               | 18,317        | 11,931   |
| <b>Cash and cash equivalents, beginning of period</b>    | 344,322       | 291,959  |
| <b>Cash and cash equivalents, end of period</b>          | 362,639       | 303,890  |

\*The Company has initially applied IFRS 16 "Leases" at December 31, 2018. Under the transition method chosen by the Company, comparative information has not been restated. See note 3.

See accompanying notes to condensed consolidated financial statements.

## **1. General**

Winpak Ltd. is incorporated under the Canada Business Corporations Act. The Company manufactures and distributes high-quality packaging materials and related packaging machines. The Company's products are used primarily for the packaging of perishable foods, beverages and in healthcare applications. The address of the Company's registered office is 100 Saulteaux Crescent, Winnipeg, Manitoba, Canada R3J 3T3.

## **2. Basis of Presentation**

The unaudited interim condensed consolidated financial statements were prepared in accordance with International Financial Reporting Standards (IFRS). The unaudited interim condensed consolidated financial statements are in compliance with IAS 34. Accordingly, certain information and note disclosures normally included in annual consolidated financial statements prepared in accordance with IFRS as issued by the International Accounting Standards Board (IASB) have been omitted or condensed. These unaudited interim condensed consolidated financial statements should be read in conjunction with the Company's consolidated financial statements for the year ended December 30, 2018, which are included in the Company's 2018 Annual Report.

This is the first set of the Company's consolidated financial statements where IFRS 16 "Leases" has been applied. The change in accounting policies from those used in the Company's consolidated financial statements for the year ended December 30, 2018 is described in notes 3 and 4.

The fiscal year of the Company ends on the last Sunday of the calendar year. As a result, the Company's fiscal year is usually 52 weeks in duration, but includes a 53<sup>rd</sup> week every five to six years. The 2019 and 2018 fiscal years are both comprised of 52 weeks and each quarter of 2019 and 2018 are comprised of 13 weeks.

The unaudited interim condensed consolidated financial statements were approved by the Audit Committee on behalf of the Board of Directors on April 23, 2019.

## **3. Accounting Standards Implemented in 2019**

The following accounting standards came into effect commencing in the Company's 2019 fiscal year:

### **(a) Uncertainty over Income Tax Treatments:**

In June 2017, IFRIC Interpretation 23 "Uncertainty over Income Tax Treatments" was issued and aims to reduce diversity in how companies recognize and measure a tax liability or tax asset when there is uncertainty over income tax treatments. The Interpretation was implemented with retrospective application, effective December 31, 2018, and had no impact on the Company's unaudited interim condensed consolidated financial statements.

### **(b) Employee Benefit Plan Amendment, Curtailment or Settlement:**

In February 2018, amendments to IAS 19 "Employee Benefits" were issued to specify how an entity determines pension expenses when changes to a defined benefit plan occur. When a change to a plan takes place, including an amendment, curtailment or settlement, IAS 19 requires an entity to remeasure its employee benefit plan liability or asset. The amendments require an entity to use the updated assumptions from this remeasurement to determine current service cost and the net finance cost for the remainder of the reporting period after the change to the plan. The amendments were implemented with prospective application, effective December 31, 2018, and had no impact on the Company's unaudited interim condensed consolidated financial statements.

### **(c) Leases:**

The Company has adopted IFRS 16 with a date of initial application of December 31, 2018. The new standard introduces a balance sheet recognition and measurement model for lessees, eliminating the distinction between operating and finance leases. As a result, most leases are recognized on the balance sheet. Certain exemptions apply for short-term leases and leases for low-value assets. Lessors continue to classify leases as operating and finance leases. IFRS 16 replaces IAS 17 "Leases" and the related interpretations.

As a result of the adoption of IFRS 16, the Company's accounting policies have been updated. See note 4 for these changes in accounting policies, as well as the new disclosure requirements. The changes in accounting policies will also be reflected in the Company's consolidated financial statements as at and for the year ending December 29, 2019.

The Company has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17.

**Impact on the 2019 Interim Condensed Consolidated Financial Statements**

On initial application, the Company has elected to record right-of-use assets based on the corresponding lease liability. Right-of-use assets and lease liabilities of \$568 were recorded as of December 31, 2018, with no net impact on retained earnings. When measuring lease liabilities, the Company discounted lease payments using its incremental borrowing rate at December 31, 2018. The weighted-average rate applied was 4.5%.

For leases with a lease term ending within 12 months of the date of initial application, the Company has elected to apply the practical expedient to account for them as short-term leases. The Company recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

The following table reconciles the Company's operating lease commitments at December 30, 2018, as previously disclosed in the Company's consolidated financial statements, to the lease liabilities recognized on initial application of IFRS 16 at December 31, 2018:

|                                                                            |       |
|----------------------------------------------------------------------------|-------|
| Operating lease commitments at December 30, 2018                           | (835) |
| Discounted using the incremental borrowing rate at December 31, 2018       | (812) |
| Recognition exemption for short-term leases and leases of low-value assets | 244   |
| Lease liabilities recognized at December 31, 2018                          | (568) |
| Of which are:                                                              |       |
| Current                                                                    | (429) |
| Non-current                                                                | (139) |
| Lease liabilities recognized at December 31, 2018                          | (568) |

The following tables summarize the impact of adopting IFRS 16 on the Company's condensed consolidated balance sheet as at March 31, 2019 and its condensed consolidated statement of income for first quarter of 2019. There was no material impact on the Company's condensed consolidated statement of cash flows for the first quarter of 2019.

Impact on the Company's condensed consolidated balance sheet as at March 31, 2019:

|                                            | Amount Without<br>IFRS 16 | IFRS 16<br>Adjustment | As Reported |
|--------------------------------------------|---------------------------|-----------------------|-------------|
| Property, plant and equipment              | 461,048                   | 461                   | 461,509     |
| Trade payables and other liabilities       | (62,462)                  | (438)                 | (62,900)    |
| Provisions and other long-term liabilities | (660)                     | (36)                  | (696)       |
| Deferred tax liabilities                   | (41,678)                  | 3                     | (41,675)    |
| Retained earnings                          | (920,258)                 | 10                    | (920,248)   |

Impact on the Company's condensed consolidated statement of income for the first quarter of 2019:

|                                                                         | Amount Without<br>IFRS 16 | IFRS 16<br>Adjustment | As Reported |
|-------------------------------------------------------------------------|---------------------------|-----------------------|-------------|
| Cost of sales                                                           | (154,911)                 | 6                     | (154,905)   |
| Other (expenses) income                                                 | (131)                     | (13)                  | (144)       |
| Finance expense                                                         | (963)                     | (6)                   | (969)       |
| Income tax expense                                                      | (10,538)                  | 3                     | (10,535)    |
| Net income for the period attributable to equity holders of the Company | 28,439                    | (10)                  | 28,429      |
| Basic and diluted earnings per share - cents                            | 44                        | -                     | 44          |

#### 4. Leases

The Company has adopted IFRS 16 with an initial application date of December 31, 2018. The updated accounting policies and additional disclosures are detailed as follows.

##### **Accounting Policies**

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received. The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of plant and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate. Lease payments included in the measurement of the lease liability comprise the following: a) fixed payments, including in-substance fixed payments, b) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date, c) amounts expected to be payable under a residual value guarantee and d) the exercise price under a purchase option that the Company is reasonably certain to exercise, lease payments in an optional renewal period if the Company is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Company is reasonably certain not to terminate early.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in the statement of income if the carrying amount of the right-of-use asset has been reduced to zero.

In the comparative periods, operating leases were not recognized in the Company's consolidated balance sheet. Payments made were recognized in the statement of income on a straight-line basis over the term of the lease, while any lease incentive received was recognized as a reduction of the total lease expense, over the term of the lease.

The Company presents right-of-use assets in 'Property, plant and equipment'. The current portion of lease liabilities is presented within 'Trade payables and other liabilities'. The non-current portion is presented within 'Provisions and other long-term liabilities'.

The Company has elected not to recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets. The Company recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

The adoption of IFRS 16 did not impact the Company's accounting policies for lessors.

##### **Right-of-use assets**

|                                    | March 31<br>2019 |
|------------------------------------|------------------|
| Opening balance, December 31, 2018 | 568              |
| Additions                          | -                |
| Depreciation                       | (107)            |
| Closing balance, March 31, 2019    | 461              |

**Lease liabilities**

The Company's leases are for office and manufacturing facilities.

The following tables provide information about the timing of future lease payments:

|                                                  | March 31<br>2019 |
|--------------------------------------------------|------------------|
| Less than one year                               | (449)            |
| One to five years                                | (37)             |
| More than five years                             | -                |
| Total contractual undiscounted lease liabilities | (486)            |
|                                                  | March 31<br>2019 |
| Current                                          | (438)            |
| Non-current                                      | (36)             |
| Total discounted lease liabilities               | (474)            |

During the first quarter of 2019, the Company recorded finance expense on lease liabilities of \$6. Total cash outflow for leases was \$235, including \$123 for short-term leases. Expenses for leases of low-dollar value items were not material.

**Extension Options**

Some leases of office and manufacturing facilities contain extension options exercisable by the Company up to one year before the end of the non-cancellable contract period. Where practicable, the Company seeks to include extension options in new leases to provide operational flexibility. The extension options held are exercisable only by the Company and not by the lessors. The Company assesses at lease commencement whether it is reasonably certain to exercise the extension options. The Company reassesses whether it is reasonably certain to exercise the options if there is a significant event or significant change in circumstances within its control. At March 31, 2019, potential future lease payments not included in lease liabilities were not material.

**Lease Income**

Lease contracts in which the Company acts as a lessor are classified as operating leases because they do not transfer substantially all of the risks and rewards incidental to ownership of the assets. Lease income from these lease contracts during the first quarter of 2019 totalled \$195.

**5. Revenue**

**Operating Segments and Product Groups**

The Company provides three distinct types of packaging technologies: a) rigid packaging and flexible lidding, b) flexible packaging and c) packaging machinery. Each of the three are deemed to be a separate operating segment.

The rigid packaging and flexible lidding segment includes the rigid containers and lidding product groups. Rigid containers includes portion control and single-serve containers, as well as plastic sheet, custom and retort trays, which are used for applications such as food, pet food, beverage, dairy, industrial, and healthcare. Lidding products are available in die-cut, daisy chain and rollstock formats and are used for applications such as food, dairy, beverage, industrial and healthcare.

The flexible packaging segment includes the modified atmosphere packaging, specialty films and biaxially oriented nylon product groups. Modified atmosphere packaging extends the shelf life of perishable foods, while at the same time maintains or improves the quality of the product. The packaging is used for a wide range of markets and applications, including fresh and processed meats, poultry, cheese, medical device packaging, high performance pouch applications and high-barrier films for converting applications. Specialty films includes a full line of barrier and non-barrier films which are ideal for converting applications such as printing, laminating, and bag making, including shrink bags. Biaxially oriented nylon film is stretched by length and width to add stability for further conversion using printing, metalizing or laminating processes and are ideal for food packaging applications such as cheese, fluid and viscous liquids, and industrial applications such as book covers and balloons.

Packaging machinery includes a full line of horizontal fill/seal machines for preformed containers and vertical form/fill/seal pouch machines for pumpable liquid and semi-liquid products and certain dry products.

Most of the Company's contracts have a single performance obligation as the promise to transfer the individual goods. Revenue for each of the three operating segments is recognized at a point in time when the customer obtains control of a product, which typically takes place when legal title and physical possession of the product is transferred to the customer. These conditions are usually fulfilled upon shipment, however, in some instances, upon delivery. Invoices are generated when control has transferred and are usually payable within 30 to 60 days.

**Disaggregation of Revenue**

|                                      | Quarter Ended    |                 |
|--------------------------------------|------------------|-----------------|
|                                      | March 31<br>2019 | April 1<br>2018 |
| <b>Operating segment</b>             |                  |                 |
| Rigid packaging and flexible lidding | 104,297          | 110,103         |
| Flexible packaging                   | 111,532          | 103,682         |
| Packaging machinery                  | 8,206            | 7,880           |
|                                      | <u>224,035</u>   | <u>221,665</u>  |
| <b>Geographic segment</b>            |                  |                 |
| United States                        | 187,877          | 183,158         |
| Canada                               | 24,983           | 29,371          |
| Mexico and other                     | 11,175           | 9,136           |
|                                      | <u>224,035</u>   | <u>221,665</u>  |

The Company's products are primarily used for the packaging of perishable foods and beverages, which accounted for more than 90 percent of sales during both the first quarter of 2019 and 2018. Other markets include medical, pharmaceutical, personal care, industrial, and other consumer goods.

**6. Segment Reporting**

The Company operates in three operating segments: a) rigid packaging and flexible lidding, b) flexible packaging and c) packaging machinery. Due to similar economic characteristics, including long-term sales volumes growth and long-term average gross profit margins, and having similar products, production processes, types of customers and distribution methods, the rigid packaging and flexible lidding and flexible packaging operating segments have been aggregated as one reportable segment. In addition, the packaging machinery operating segment has been aggregated with these two segments as the segment's revenue and assets represents less than 4 percent of total Company revenues and assets.

The Company operates principally in the United States, Canada and Mexico. See note 5 for a breakdown of revenue by operating and geographic segment. The following summary presents property, plant and equipment and intangible assets information by geographic segment:

|               | March 31<br>2019 | April 1<br>2018 |
|---------------|------------------|-----------------|
| United States | 223,981          | 215,365         |
| Canada        | 233,797          | 223,234         |
| Mexico        | 17,946           | 1,184           |
|               | <u>475,724</u>   | <u>439,783</u>  |

**7. Other (Expenses) Income**

|                                                                            | Quarter Ended    |                 |
|----------------------------------------------------------------------------|------------------|-----------------|
|                                                                            | March 31<br>2019 | April 1<br>2018 |
| Amounts shown on a net basis                                               |                  |                 |
| Foreign exchange gains (losses)                                            | 402              | (320)           |
| Cash flow hedge (losses) gains transferred from other comprehensive income | (546)            | 536             |
|                                                                            | <u>(144)</u>     | <u>216</u>      |

**8. Inventories**

|                 | March 31<br>2019 | December 30<br>2018 |
|-----------------|------------------|---------------------|
| Raw materials   | 38,476           | 44,179              |
| Work-in-process | 21,468           | 22,365              |
| Finished goods  | 57,896           | 55,329              |
| Spare parts     | 10,859           | 10,445              |
|                 | <u>128,699</u>   | <u>132,318</u>      |

During the first quarter of 2019, the Company recorded, within cost of sales, inventory write-downs for slow-moving and obsolete inventory of \$2,472 (2018 - \$2,374) and reversals of previously written-down items of \$1,543 (2018 - \$1,268).

## 9. Property, Plant and Equipment and Intangible Assets

Property, plant and equipment comprise owned and leased assets.

|                                     | March 31<br>2019 |
|-------------------------------------|------------------|
| Property, plant and equipment owned | 461,048          |
| Right-of-use assets                 | 461              |
|                                     | <u>461,509</u>   |

At March 31, 2019, the Company has commitments to purchase plant and equipment of \$25,116 (December 30, 2018 - \$31,157). No impairment losses or impairment reversals were recognized in the first quarter of 2019 or 2018.

## 10. Dividends

During the first quarter of 2019, dividends in Canadian dollars of 3 cents per common share were declared (2018 - 3 cents).

## 11. Earnings Per Share

|                                                          | Quarter Ended    |                 |
|----------------------------------------------------------|------------------|-----------------|
|                                                          | March 31<br>2019 | April 1<br>2018 |
| Net income attributable to equity holders of the Company | 28,429           | 26,361          |
| Weighted average shares outstanding (000's)              | 65,000           | 65,000          |
| Basic and diluted earnings per share - cents             | <u>44</u>        | <u>41</u>       |

## 12. Financial instruments

The Company measures assets and liabilities under the following fair value hierarchy in accordance with IFRS. The inputs used for fair value measurements, including their classification within the required three levels of the fair value hierarchy that prioritizes the inputs used for fair value measurement, are as follows:

Level 1 - unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 - inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and

Level 3 - inputs that are not based on observable market data.

The fair value of cash and cash equivalents, trade and other receivables, including trade and other receivables subject to factoring arrangements and classified as measured at FVOCI, trade payables and other liabilities approximate their carrying value because of the short-term maturity of these instruments. The fair value of foreign currency forward contracts, designated as cash flow hedges, has been determined by valuing those contracts to market against prevailing forward foreign exchange rates as at the reporting date.

The following table presents the classification of financial instruments within the fair value hierarchy:

| Financial Assets (Liabilities)           | Level 1 | Level 2 | Level 3 | Total   |
|------------------------------------------|---------|---------|---------|---------|
| <u>At March 31, 2019</u>                 |         |         |         |         |
| Foreign currency forward contracts - net | -       | (906)   | -       | (906)   |
| <u>At December 30, 2018</u>              |         |         |         |         |
| Foreign currency forward contracts - net | -       | (2,697) | -       | (2,697) |

When the Company has a legally enforceable right to set off supplier rebates receivable against supplier trade payables and intends to settle the amount on a net basis or simultaneously, the balance is presented as an offset within 'Trade payables and other liabilities' on the consolidated balance sheet. At March 31, 2019, the supplier rebate receivable balance that was offset was \$4,710 (December 30, 2018 - \$5,166).

### 13. Financial Risk Management

In the normal course of business, the Company has risk exposures consisting primarily of foreign exchange risk, interest rate risk, commodity price risk, liquidity risk, and credit risk. The Company manages its risks and risk exposures through a combination of derivative financial instruments, insurance, a system of internal and disclosure controls and sound business practices. The Company does not purchase any derivative financial instruments for speculative purposes.

Financial risk management is primarily the responsibility of the Company's corporate finance function. Significant risks are regularly monitored and actions are taken, when appropriate, according to the Company's approved policies, established for that purpose. In addition, as required, these risks are reviewed with the Company's Board of Directors.

#### **Foreign Exchange Risk**

Translation differences arise when foreign currency monetary assets and liabilities are translated at foreign exchange rates that change over time. These foreign exchange gains and losses are recorded in other (expenses) income. As a result of the Company's CDN dollar net asset monetary position as at March 31, 2019, a one-cent change in the period-end foreign exchange rate from 0.7485 to 0.7385 (CDN to US dollars) would have decreased net income by \$187 for the first quarter of 2019. Conversely, a one-cent change in the period-end foreign exchange rate from 0.7485 to 0.7585 (CDN to US dollars) would have increased net income by \$187 for the first quarter of 2019.

The Company's Foreign Exchange Policy requires that between 50 and 80 percent of the Company's net requirement of CDN dollars for the ensuing 9 to 15 months will be hedged at all times with a combination of cash and cash equivalents and forward or zero-cost option foreign currency contracts. The Company may also enter into forward foreign currency contracts when equipment purchases and special dividend payments will be settled in foreign currencies. Transactions are only conducted with certain approved Schedule I Canadian financial institutions. All foreign currency contracts are designated as cash flow hedges of the highly probable CDN dollar expenditures. These derivatives meet the hedge effectiveness criteria as a result of the following factors:

a) An economic relationship exists between the hedged item and the hedging instrument as notional amounts match and both the hedged item and hedging instrument fair values move in response to the same risk - foreign exchange rates. There are no significant reasons or causes for the designated hedged item and hedging instrument to be mismatched since the hedging instrument matures during the same month as the expected hedged expenditures are incurred. The correlation between the foreign exchange rate of the hedged item and the hedging instrument should be highly correlated and closely aligned as the maturity and the notional amount are the same.

b) The hedge ratio is one to one for this hedging relationship as the hedged item is foreign currency risk that is hedged with a foreign currency hedging instrument.

c) Credit risk is not material in the fair value of the hedging instrument.

The Company has identified two sources of potential ineffectiveness: a) the timing of cash flow differences between the expenditure and the related derivative and b) the inclusion of credit risk in the fair value of the derivative not replicated in the hedged item. The Company expects the impact of these sources of hedge ineffectiveness to be minimal. The timing of hedge settlements and incurred expenditures are closely aligned as they are expected to occur within 30 days of each other. Credit risk is not a material component of the fair value of the Company's hedging instruments as all counterparties are Schedule 1 Canadian financial institutions, which are highly rated.

Certain foreign currency contracts matured during the first quarter of 2019 and the Company realized pre-tax foreign exchange losses of \$641. Of these foreign exchange differences, losses of \$546 were recorded in other (expenses) income and losses of \$95 were recorded in property, plant and equipment. During the first quarter of 2018 the Company realized pre-tax foreign exchange gains of \$771. Of these foreign exchange differences, gains of \$536 were recorded in other (expenses) income and gains of \$235 were recorded in property, plant and equipment.

As at March 31, 2019, the Company had US to CDN dollar foreign currency forward contracts outstanding with a notional amount of US \$53.0 million at an average exchange rate of 1.3086 maturing between April 2019 and February 2020. The fair value of these financial instruments was negative \$906 US and the corresponding unrealized loss has been recorded in other comprehensive income. The Company did not recognize any ineffectiveness on the hedging instruments in the first quarter of 2019 or 2018.

#### **Interest Rate Risk**

The Company's interest rate risk arises from interest rate fluctuations on the finance income that it earns on its cash invested in money market accounts and short-term deposits. The Company developed and implemented an investment policy, which was approved by the Company's Board of Directors, with the primary objective to preserve capital, minimize risk and provide liquidity. Regarding the March 31, 2019 cash and cash equivalents balance of \$362.6 million, a 1.0 percent increase/decrease in interest rate fluctuations would increase/decrease income before income taxes by \$3,626 annually.

### **Commodity Price Risk**

The Company's manufacturing costs are affected by the price of raw materials, namely petroleum-based and natural gas-based plastic resins and aluminum. In order to manage its risk, the Company has entered into selling price-indexing programs with certain customers. Changes in raw material prices for these customers are reflected in selling price adjustments but there is a slight time lag. For the quarter ended March 31, 2019, 72 percent of revenue was generated from customers with selling price-indexing programs. For all other customers, the Company's preferred practice is to match raw material cost changes with selling price adjustments, albeit with a slight time lag. This matching is not always possible, as customers react to selling price pressures related to raw material cost fluctuations according to conditions pertaining to their markets.

### **Liquidity Risk**

Liquidity risk is the risk that the Company would not be able to meet its financial obligations as they come due. Management believes that the liquidity risk is low due to the strong financial condition of the Company. This risk assessment is based on the following: (a) cash and cash equivalents amounts of \$362.6 million, (b) no outstanding bank loans, (c) unused credit facilities comprised of unsecured operating lines of \$38 million, (d) the ability to obtain term-loan financing to fund an acquisition, if needed, (e) an informal investment grade credit rating and (f) the Company's ability to generate positive cash flows from ongoing operations. Management believes that the Company's cash flows are more than sufficient to cover its operating costs, working capital requirements, capital expenditures, payment of lease liabilities and dividend payments in the next twelve months. The Company's trade payables and other liabilities and derivative financial instrument liabilities are all due within twelve months.

### **Credit Risk**

The Company is exposed to credit risk from its cash and cash equivalents held with banks and financial institutions, derivative financial instruments (foreign currency forward contracts), as well as credit exposure to customers, including outstanding trade and other receivable balances.

The following table details the maximum exposure to the Company's counterparty credit risk which represents the carrying value of the financial asset:

|                                    | March 31<br>2019 | December 30<br>2018 |
|------------------------------------|------------------|---------------------|
| Cash and cash equivalents          | 362,639          | 344,322             |
| Trade and other receivables        | 133,661          | 131,851             |
| Foreign currency forward contracts | 5                | -                   |
|                                    | 496,305          | 476,173             |

Credit risk on cash and cash equivalents and other financial instruments arises in the event of non-performance by the counterparties when the Company is entitled to receive payment from the counterparty who fails to perform. The Company has established an investment policy to manage its cash. The policy requires that the Company manage its risk by investing its excess cash on hand on a short-term basis, up to a maximum of six months, with several financial institutions and/or governmental bodies that must be rated 'AA' or higher for CDN financial institutions and 'A-1' or higher for US financial institutions by recognized international credit rating agencies or insured 100 percent by the US government or a 'AAA' rated CDN federal or provincial government. The Company manages its counterparty risk on its financial instruments by only dealing with Schedule I Canadian financial institutions.

In the normal course of business, the Company is exposed to credit risk on its trade and other receivables from customers. To mitigate such risk, the Company performs ongoing customer credit evaluations and assesses their credit quality by taking into account their financial position, past experience and other pertinent factors. Management regularly monitors customer credit limits, performs credit reviews and, in certain cases insures trade and other receivables against credit losses.

During the first quarter of 2019, the Company incurred costs on the sale of trade receivables of \$1,229 (2018 - \$1,081). Of these costs, \$881 was recorded in finance expense (2018 - \$755) and \$348 was recorded in general and administrative expenses (2018 - \$326).

As at March 31, 2019, the Company believes that the credit risk for trade and other receivables is mitigated due to the following: a) a broad customer base which is dispersed across varying market sectors and geographic locations, b) 99 percent of the gross trade and other receivables balance is within 30 days of the agreed upon payment terms with customers, c) the sale of certain extended term trade receivables without recourse and d) 37 percent of the trade and other receivables balance is insured against credit losses. The Company's exposure to the ten largest customer balances, on aggregate, accounted for 42 percent of the total trade and other receivables balance.

The carrying amount of trade and other receivables is reduced through the use of an allowance for expected credit losses and the amount of the loss is recognized in the statement of income within general and administrative expenses. When a receivable balance is considered uncollectible, it is written off against the allowance for expected credit losses. Subsequent recoveries of amounts previously written off are credited against general and administrative expenses in the statement of income. During the first quarter of 2019, the Company recorded impairment losses on trade and other receivables of \$76 (2018 - \$116).

**Notes to Condensed Consolidated Financial Statements**  
For the periods ended March 31, 2019 and April 1, 2018  
(thousands of US dollars, unless otherwise indicated) (Unaudited)

The following table sets out the aging details of the Company's trade and other receivables balances outstanding based on when the receivable was due and payable and related allowance for expected credit losses:

|                                            | March 31<br>2019 | December 30<br>2018 |
|--------------------------------------------|------------------|---------------------|
| Current (not past due)                     | 119,475          | 112,953             |
| 1 - 30 days past due                       | 13,205           | 16,636              |
| 31 - 60 days past due                      | 1,050            | 2,022               |
| More than 60 days past due                 | 941              | 1,196               |
|                                            | <u>134,671</u>   | <u>132,807</u>      |
| Less: Allowance for expected credit losses | (1,010)          | (956)               |
| Total trade and other receivables, net     | <u>133,661</u>   | <u>131,851</u>      |

**14. Seasonality**

The Company experiences seasonal variation in revenue, with revenue typically being the highest in the second and fourth quarters, and lowest in the first quarter.