

Winpak Ltd.
Interim Condensed Consolidated Financial Statements
First Quarter Ended: March 31, 2024

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 2024	December 31 2023
Assets			
Current assets:			
Cash and cash equivalents		554,366	541,870
Trade and other receivables	14	201,977	207,355
Income taxes receivable		2,297	4,565
Inventories	8	217,132	219,763
Prepaid expenses		10,537	8,942
Derivative financial instruments		48	1,542
		<u>986,357</u>	<u>984,037</u>
Non-current assets:			
Property, plant and equipment	9	578,173	543,387
Intangible assets and goodwill		31,466	31,833
Employee benefit plan assets		11,591	12,209
		<u>621,230</u>	<u>587,429</u>
Total assets		<u>1,607,587</u>	<u>1,571,466</u>
Equity and Liabilities			
Current liabilities:			
Trade payables and other liabilities		116,254	89,359
Contract liabilities		559	1,478
Income taxes payable		4,467	3,109
Derivative financial instruments		410	-
		<u>121,690</u>	<u>93,946</u>
Non-current liabilities:			
Employee benefit plan liabilities		5,500	6,362
Deferred income		17,772	18,062
Provisions and other long-term liabilities		12,309	12,685
Deferred tax liabilities		55,029	56,762
		<u>90,610</u>	<u>93,871</u>
Total liabilities		<u>212,300</u>	<u>187,817</u>
Equity:			
Share capital	11	28,880	29,195
Reserves		(263)	1,361
Retained earnings		1,332,815	1,319,491
Total equity attributable to equity holders of the Company		<u>1,361,432</u>	<u>1,350,047</u>
Non-controlling interests		<u>33,855</u>	<u>33,602</u>
Total equity		<u>1,395,287</u>	<u>1,383,649</u>
Total equity and liabilities		<u>1,607,587</u>	<u>1,571,466</u>

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 (Note 2)	
		March 31 2024	April 2 2023
Revenue	6	276,783	304,516
Cost of sales		(190,591)	(216,666)
Gross profit		86,192	87,850
Sales, marketing and distribution expenses		(24,649)	(25,394)
General and administrative expenses		(12,720)	(10,516)
Research and technical expenses		(5,296)	(4,278)
Other (expenses) income	7	(279)	888
Income from operations		43,248	48,550
Finance income		7,534	4,992
Finance expense		(1,360)	(1,358)
Income before income taxes		49,422	52,184
Income tax expense		(13,647)	(13,448)
Net income for the period		35,775	38,736
Attributable to:			
Equity holders of the Company		35,522	39,287
Non-controlling interests		253	(551)
		35,775	38,736
Basic and diluted earnings per share - cents	12	55	60

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

	Note	Quarter Ended (Note 2)	
		March 31 2024	April 2 2023
Net income for the period		35,775	38,736
<u>Items that will not be reclassified to the statements of income:</u>			
Cash flow hedge (losses) gains recognized		(806)	288
Cash flow hedge gains transferred to property, plant and equipment		(51)	-
		(857)	288
<u>Items that are or may be reclassified subsequently to the statements of income:</u>			
Cash flow hedge (losses) gains recognized		(1,055)	410
Cash flow hedge losses transferred to the statements of income	7	8	286
Income tax effect		280	(187)
		(767)	509
Other comprehensive (loss) income for the period - net of income tax		(1,624)	797
Comprehensive income for the period		34,151	39,533
Attributable to:			
Equity holders of the Company		33,898	40,084
Non-controlling interests		253	(551)
		34,151	39,533

See accompanying notes to condensed consolidated financial statements.

Winpak Ltd.
Condensed Consolidated Statements of Changes in Equity
(thousands of US dollars) (unaudited)

		Attributable to equity holders of the Company				
	Note	Share capital	Reserves	Retained earnings	Total	Non-controlling interests
						Total equity
Balance at December 26, 2022		29,195	(972)	1,174,551	1,202,774	36,001
Comprehensive income for the period						
Cash flow hedge gains, net of tax		-	588	-	588	-
Cash flow hedge losses transferred to the statements of income, net of tax		-	209	-	209	-
Other comprehensive income		-	797	-	797	-
Net income (loss) for the period		-	-	39,287	39,287	(551)
Comprehensive income (loss) for the period		-	797	39,287	40,084	(551)
Dividends	11	-	-	(1,443)	(1,443)	-
Balance at April 2, 2023		29,195	(175)	1,212,395	1,241,415	35,450
Balance at January 1, 2024		29,195	1,361	1,319,491	1,350,047	33,602
Comprehensive (loss) income for the period						
Cash flow hedge losses, net of tax		-	(1,579)	-	(1,579)	-
Cash flow hedge losses transferred to the statements of income, net of tax		-	6	-	6	-
Cash flow hedge gains transferred to property, plant and equipment		-	(51)	-	(51)	-
Other comprehensive loss		-	(1,624)	-	(1,624)	-
Net income for the period		-	-	35,522	35,522	253
Comprehensive (loss) income for the period		-	(1,624)	35,522	33,898	253
Dividends	11	-	-	(1,436)	(1,436)	-
Repurchase of common shares	11	(315)	-	(20,762)	(21,077)	-
Balance at March 31, 2024		28,880	(263)	1,332,815	1,361,432	33,855

See accompanying notes to condensed consolidated financial statements.

Winpak Ltd.**Condensed Consolidated Statements of Cash Flows***(thousands of US dollars) (unaudited)*

	Quarter Ended (Note 2)	
	March 31	April 2
Note	2024	2023
Cash provided by (used in):		
Operating activities:		
Net income for the period	35,775	38,736
Items not involving cash:		
Depreciation	12,680	12,087
Amortization - deferred income	(418)	(418)
Amortization - intangible assets	391	427
Employee defined benefit plan expenses	659	751
Net finance income	(6,174)	(3,634)
Income tax expense	13,647	13,448
Other	(365)	(1,400)
Cash flow from operating activities before the following	56,195	59,997
Change in working capital:		
Trade and other receivables	5,378	3,602
Inventories	2,631	6,571
Prepaid expenses	(1,595)	(2,447)
Trade payables and other liabilities	12,175	(10,589)
Contract liabilities	(919)	(1,332)
Employee defined benefit plan contributions	(1,155)	(757)
Income tax paid	(10,795)	(25,517)
Interest received	7,392	4,941
Interest paid	(1,266)	(1,369)
Net cash from operating activities	68,041	33,100
Investing activities:		
Acquisition of property, plant and equipment - net	(47,343)	(9,443)
Acquisition of intangible assets	(23)	(207)
	(47,366)	(9,650)
Financing activities:		
Payment of lease liabilities	(397)	(219)
Dividends paid	11 (1,471)	(1,434)
Repurchase of common shares	11 (6,311)	-
	(8,179)	(1,653)
Change in cash and cash equivalents	12,496	21,797
Cash and cash equivalents, beginning of period	541,870	398,673
Cash and cash equivalents, end of period	554,366	420,470

See accompanying notes to condensed consolidated financial statements.

1. General

Winpak Ltd. (the "Company" or "Winpak") 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

Statement of compliance

The unaudited interim condensed consolidated financial statements were prepared in accordance with IFRS Accounting 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 31, 2023, which are included in the Company's 2023 Annual Report.

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 53rd week every five to six years. The 2024 fiscal year comprises 52 weeks and the 2023 fiscal year comprised 53 weeks. Each quarter of 2024 and 2023 comprises 13 weeks with the exception of the first quarter of 2023, which comprised 14 weeks.

The unaudited interim condensed consolidated financial statements were approved by the Audit Committee on behalf of the Board of Directors on April 22, 2024.

3. Accounting Standards Implemented in 2024

The following accounting standards came into effect commencing in the Company's 2024 fiscal year:

(a) Lease Liability in a Sale and Leaseback:

In September 2022, the IASB issued "Lease Liability in a Sale and Leaseback (Amendments to IFRS 16)", that requires a seller-lessee to subsequently measure lease liabilities arising from a leaseback in a way that it does not recognize any amount of the gain or loss that relates to the right of use it retains. The amendments were implemented with retrospective application, effective January 1, 2024. The amendments had no impact on the Company's unaudited interim condensed consolidated financial statements.

4. Future Accounting Standards

(a) Presentation and Disclosure of Financial Statements:

In April 2024, the IASB issued IFRS 18 "Presentation and Disclosure in Financial Statements" to improve reporting of financial performance. IFRS 18 replaces IAS 1 "Presentation of Financial Statements". It carries forward many requirements from IAS 1 unchanged. IFRS 18 applies for annual reporting periods beginning on or after January 1, 2027 with early adoption permitted. The Company is currently assessing the impact of this new standard and does not intend to early adopt IFRS 18 in its consolidated financial statements.

5. Segment Reporting

Operating segments and product groups

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

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 include 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 is ideal for food packaging applications such as cheese, fluid and viscous liquids, and industrial applications such as book covers and balloons.

The rigid packaging and flexible lidding segment includes the rigid containers, lidding and specialized printed packaging product groups. Rigid containers include 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, pet food, industrial and healthcare. Specialized printed packaging provides packaging solutions to the pharmaceutical, healthcare, nutraceutical, cosmetic and personal care markets.

Notes to Condensed Consolidated Financial Statements
For the periods ended March 31, 2024 and April 2, 2023
(thousands of US dollars, unless otherwise indicated) (Unaudited)

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.

Due to similar economic characteristics, including long-term sales volume growth and long-term average gross profit margins, and having similar products, production processes, types of customers and distribution methods, the flexible packaging and rigid packaging and flexible lidding 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 3 percent of total Company revenue and assets.

The Company operates principally in Canada and the United States. See note 6 for a breakdown of revenue by operating and geographic segment. The following summary presents property, plant and equipment, intangible assets and goodwill information by geographic segment:

	March 31 2024	December 31 2023
United States	276,416	256,065
Canada	315,536	301,261
Mexico	17,687	17,894
	<u>609,639</u>	<u>575,220</u>

6. Revenue

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 2024	April 2 2023
Operating segment		
Flexible packaging	147,297	164,000
Rigid packaging and flexible lidding	122,200	130,049
Packaging machinery	7,286	10,467
	<u>276,783</u>	<u>304,516</u>
Geographic segment		
United States	219,914	244,796
Canada	37,521	38,960
Mexico and other	19,348	20,760
	<u>276,783</u>	<u>304,516</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 2024 and 2023. Other markets include medical, pharmaceutical, nutraceutical, personal care, industrial and other consumer goods.

7. Other (Expenses) Income

	Quarter Ended	
	March 31 2024	April 2 2023
Amounts shown on a net basis		
Foreign exchange (losses) gains	(271)	1,174
Cash flow hedge losses transferred from other comprehensive income	(8)	(286)
	<u>(279)</u>	<u>888</u>

8. Inventories

	March 31 2024	December 31 2023
Raw materials	73,872	84,710
Work-in-process	44,353	39,891
Finished goods	80,484	76,825
Spare parts	18,423	18,337
	<u>217,132</u>	<u>219,763</u>

During the first quarter of 2024, the Company recorded, within cost of sales, inventory write-downs for slow-moving and obsolete inventory of \$2,919 (2023 - \$2,828) and reversals of previously written-down items of \$2,249 (2023 - \$2,306).

9. Property, Plant and Equipment

At March 31, 2024, the Company has commitments to purchase property, plant and equipment of \$84,701 (December 31, 2023 - \$123,083). No impairment losses or impairment reversals were recognized in the first quarter of 2024 or 2023.

10. Leases

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, 2024, potential future lease payments not included in lease liabilities totalled \$4,852 on a discounted basis.

11. Share Capital

The following table presents changes in the Company's share capital:

	Number of Common Shares	Amount
Opening balance, January 1, 2024	65,000,000	29,195
Repurchase of common shares	(208,504)	(315)
Closing balance, March 31, 2024	<u>64,791,496</u>	<u>28,880</u>

Repurchase of common shares during the first quarter of 2024 does not include the shares that may be repurchased subsequent to the end of the quarter under the automatic share purchase plan ("ASPP"), which is described below. However, the ending share capital balance reflects a reduction of \$221 related to the ASPP.

Dividends

During the first quarter of 2024, dividends in Canadian dollars of 3 cents per common share were declared (2023 - 3 cents).

Share Redemptions

On February 29, 2024, the Toronto Stock Exchange (the "TSX") accepted a notice filed by Winpak of its intention to make a normal course issuer bid (the "NCIB") with respect to its outstanding common shares. The notice provides that Winpak may, during the 12-month period commencing March 4, 2024 and ending no later than March 3, 2025, purchase through the facilities of the TSX and other alternative Canadian trading systems up to a maximum of 1,950,000 common shares in total, being 3.0 percent of the issued and outstanding shares of Winpak as of February 21, 2024. The price which Winpak will pay for any common shares will be the market price at the time of acquisition. Daily purchases under the NCIB will be generally limited to 11,644 common shares, other than block purchases. All shares purchased will be canceled. In connection with the NCIB, Winpak has entered into an ASPP with CIBC World Markets Inc. to facilitate the purchase of common shares under the NCIB, including at times when Winpak would ordinarily not be permitted to purchase its common shares due to regulatory restrictions or self-imposed blackout periods.

During the first quarter of 2024, 208,504 common shares were repurchased under the NCIB program for cancellation at a weighted average price of CDN \$40.87 for aggregate consideration of CDN \$8,521 (US \$6,311) of which \$94 was recorded to share capital and the remaining \$6,217 was recorded to retained earnings.

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For the periods ended March 31, 2024 and April 2, 2023
(thousands of US dollars, unless otherwise indicated) (Unaudited)

At March 31, 2024, the Company recorded an obligation to repurchase common shares of \$14,766 under the ASPP in trade payables and other liabilities of which \$221 was recorded to share capital and the remaining \$14,545 was recorded to retained earnings. Subsequent to the quarter ended March 31, 2024, the Company repurchased an additional 261,908 common shares for cancellation as at the close of trading on April 19, 2024. The transactions were completed at a weighted average price of CDN \$39.81 for aggregate consideration of CDN \$10,426 (US \$7,698).

12. Earnings Per Share

	March 31 2024	April 2 2023
Net income attributable to equity holders of the Company	35,522	39,287
Weighted average shares outstanding (000's)	64,963	65,000
Basic and diluted earnings per share - cents	55	60

13. 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 fair value through other comprehensive income (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, 2024</u>				
Foreign currency forward contracts - net	-	(362)	-	(362)
<u>At December 31, 2023</u>				
Foreign currency forward contracts - net	-	1,542	-	1,542

When the Company has a legally enforceable right to set off supplier rebates accounts 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, 2024, the supplier rebate receivable balance that was offset was \$4,621 (December 31, 2023 - \$8,769).

14. 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, 2024, a one-cent change in the period-end foreign exchange rate from 0.7383 to 0.7283 (CDN to US dollars) would have decreased net income by \$187 for the first quarter of 2024. Conversely, a one-cent change in the period-end foreign exchange rate from 0.7383 to 0.7483 (CDN to US dollars) would have increased net income by \$187 for the first quarter of 2024.

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 foreign currency forward contracts when equipment purchases, share repurchases and special dividend payments will be settled in foreign currencies. Transactions are only conducted with certain approved 'AA' rated or higher Schedule 1 CDN 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 'AA' rated or higher Schedule 1 CDN financial institutions.

Certain foreign currency forward contracts matured during the first quarter of 2024 and the Company realized pre-tax foreign exchange gains of \$43. Of these foreign exchange differences, losses of \$8 were recorded in other (expenses) income and gains of \$51 were recorded in property, plant and equipment. During the first quarter of 2023, the Company realized pre-tax foreign exchange losses of \$286 which were recorded in other (expenses) income.

As at March 31, 2024, the Company had US to CDN dollar foreign currency forward contracts outstanding with a notional amount of US \$89.2 million at an average exchange rate of 1.3467 maturing between April 2024 and March 2025. The fair value of these financial instruments was negative \$362 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 2024 or 2023.

In addition, as at March 31, 2024, the Company has US to CDN dollar foreign currency forward contracts outstanding with a notional amount of US \$28.0 million at an average rate of 1.3547 maturing between April and October 2024 to partially fund the NCIB.

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, 2024 cash and cash equivalents balance of \$554.4 million, a 1.0 percent increase/decrease in interest rate fluctuations would increase/decrease income before income taxes by \$5,544 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, 2024, 75 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 \$554.4 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, share repurchases 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.

Notes to Condensed Consolidated Financial Statements
For the periods ended March 31, 2024 and April 2, 2023
(thousands of US dollars, unless otherwise indicated) (Unaudited)

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 2024	December 31 2023
Cash and cash equivalents	554,366	541,870
Trade and other receivables	201,977	207,355
Foreign currency forward contracts	48	1,542
	<u>756,391</u>	<u>750,767</u>

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 'AA' rated or higher Schedule 1 CDN 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 2024, the Company incurred costs on the sale of trade receivables of \$1,257 (2023 - \$1,355). Of these costs, \$1,146 was recorded in finance expense (2023 - \$1,261) and \$111 was recorded in general and administrative expenses (2023 - \$94).

As at March 31, 2024, 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) 97 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 to a third party and d) 30 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 46 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 2024, the Company recorded impairment losses on trade and other receivables of \$498 (2023 - \$28).

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 2024	December 31 2023
Current (not past due)	178,976	183,819
1 - 30 days past due	18,865	18,639
31 - 60 days past due	2,980	3,970
More than 60 days past due	3,677	3,087
	<u>204,498</u>	<u>209,515</u>
Less: Allowance for expected credit losses	<u>(2,521)</u>	<u>(2,160)</u>
Total trade and other receivables, net	<u>201,977</u>	<u>207,355</u>

15. 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.