Interim Condensed Consolidated Financial Statements

# ABC Group Holdings Parent Inc.

For the three and six months ended December 31, 2018

(Unaudited)

# ABC Group Holdings Parent Inc.

## Interim Condensed Consolidated Statements of Financial Position

(Expressed in thousands of United States dollars)

| | Notes | | December 31, 2018 | | June 30, 2018 |
|---|---|---|---|---|---|
| **Assets** | | | (Unaudited) | | |
| Current assets | | | | | |
| Cash and cash equivalents | | **$** | **66,098** | $ | 36,785 |
| Trade and other receivables | *4 and 15* | | **74,510** | | 120,786 |
| Inventories | *5* | | **112,298** | | 90,767 |
| Prepaid expenses and other | | | **12,722** | | 18,140 |
| Total current assets | | | **265,628** | | 266,478 |
| Property, plant and equipment | *6* | | **283,563** | | 276,796 |
| Intangible assets | *7* | | **66,475** | | 59,009 |
| Deferred income taxes | | | **2,326** | | 811 |
| Investment in joint ventures | | | **46,180** | | 45,267 |
| Derivative financial assets | *15* | | **1,604** | | 3,506 |
| Goodwill | *7* | | **18,944** | | 18,944 |
| Deferred financing costs for revolving credit facility | | | **2,328** | | 2,592 |
| Total non-current assets | | | **421,420** | | 406,925 |
| **Total assets** | | **$** | **687,048** | $ | 673,403 |
| **Liabilities and equity** | | | | | |
| Current liabilities | | | | | |
| Trade payables | | **$** | **108,366** | $ | 106,685 |
| Accrued liabilities and other payables | | | **81,342** | | 90,245 |
| Provisions | *8* | | **11,384** | | 17,698 |
| Total current liabilities | | | **201,092** | | 214,628 |
| Long-term debt | *9* | | **296,427** | | 296,423 |
| Provisions | *8* | | **—** | | 7,089 |
| Deferred income taxes | | | **22,990** | | 27,823 |
| Derivative financial liabilities | *15* | | **12,704** | | 2,155 |
| Total long-term liabilities | | | **332,121** | | 333,490 |
| **Total liabilities** | | | **533,213** | | 548,118 |
| **Equity** | | | | | |
| Capital stock | *10* | | **2,991** | | 2,991 |
| Retained earnings | | | **164,070** | | 125,250 |
| Foreign currency translation reserve | | | **(327)** | | (1,116) |
| Cash flow hedge reserve, including cost of hedging | *15* | | **(12,899)** | | (1,840) |
| **Total equity** | | | **153,835** | | 125,285 |
| **Total liabilities and equity** | | **$** | **687,048** | $ | 673,403 |

Approved on behalf of the Board of Directors:
*(signed)*
Dev B. Kapadia
Director

*The accompanying notes are an integral part of these interim condensed consolidated financial statements.*

**ABC Group Holdings Parent Inc.**

## Interim Condensed Consolidated Statements of Comprehensive Income

(Expressed in thousands of United States dollars, except per share figures)

| | | For the three months ended December 31, | | For the six months ended December 31, | |
|---|---|---|---|---|---|
| | | 2018 | 2017 | 2018 | 2017 |
| (Unaudited) | Notes | | | | |
| Sales | | $ 249,599 | $ 249,455 | $ 488,144 | $ 469,878 |
| Cost of sales | *8* | 200,057 | 199,803 | 402,392 | 384,228 |
| **Gross profit** | | 49,542 | 49,652 | 85,752 | 85,650 |
| Selling, general and administrative | *11* | 21,663 | 25,415 | 46,491 | 45,763 |
| Gain on disposal of assets held for sale | *3* | (14,980) | — | (14,980) | — |
| Gain on disposal of property, plant and equipment | | (27) | — | (389) | — |
| Loss (gain) on derivative instruments | *15* | 207 | 3,070 | (2) | 2,746 |
| Share of income of joint ventures | | (2,139) | (321) | (3,569) | (290) |
| **Operating income** | | 44,818 | 21,488 | 58,201 | 37,431 |
| Interest expense | | 4,234 | 8,026 | 8,607 | 16,490 |
| **Earnings before income tax** | | 40,584 | 13,462 | 49,594 | 20,941 |
| **Income tax expense (recovery)** | | | | | |
| Current | | 6,542 | 7,196 | 12,718 | 12,635 |
| Deferred | | 303 | (6,553) | (1,944) | (9,270) |
| **Total income tax expense** | | 6,845 | 643 | 10,774 | 3,365 |
| **Net earnings** | | $ 33,739 | $ 12,819 | $ 38,820 | $ 17,576 |
| **Other comprehensive income (loss)** | | | | | |
| Items that may be reclassified subsequently to net earnings: | | | | | |
| Foreign currency translation of foreign operations | | 218 | (165) | 789 | 1,557 |
| Cash flow hedges, net of taxes | *15* | (17,851) | (912) | (10,680) | 7,762 |
| Cash flow hedges reclassified to net earnings, net of taxes | *15* | (316) | (200) | (692) | (410) |
| **Other comprehensive income (loss)** | | $ (17,949) | $ (1,277) | $ (10,583) | $ 8,909 |
| **Total comprehensive income for the period** | | $ 15,790 | $ 11,542 | $ 28,237 | $ 26,485 |
| **Earnings per share - basic and diluted** | *14* | $ 337.39 | $ 128.19 | $ 388.20 | $ 175.76 |

*The accompanying notes are an integral part of these interim condensed consolidated financial statements.*

**ABC Group Holdings Parent Inc.**

## Interim Condensed Consolidated Statements of Changes in Equity

(Expressed in thousands of United States dollars)

| (Unaudited) | Notes | Capital stock | Retained earnings | Foreign currency translation reserve | Cash flow hedge reserve | Total |
|---|---|---|---|---|---|---|
| **Balance, June 30, 2017** | | **$ 70,454** | **$ 71,903** | **$ 1,974** | **$ 1,683** | **$ 146,014** |
| Net earnings for the period | | — | 17,576 | — | — | 17,576 |
| *Other comprehensive income:* | | | | | | |
| Foreign currency translation of foreign operations | | — | — | 1,557 | — | 1,557 |
| Cash flow hedges, net of reclassification to net earnings | *15* | — | — | — | 7,352 | 7,352 |
| **Total comprehensive income** | | **$ —** | **$ 17,576** | **$ 1,557** | **$ 7,352** | **$ 26,485** |
| Return of capital | | (67,463) | — | — | — | (67,463) |
| Dividends paid | | — | (8,181) | — | — | (8,181) |
| Cash flow hedges reclassified to assets, net of taxes | *15* | — | — | — | (643) | (643) |
| **Balance, December 31, 2017** | | **$ 2,991** | **$ 81,298** | **$ 3,531** | **$ 8,392** | **$ 96,212** |
| **Balance, June 30, 2018** | | **$ 2,991** | **$ 125,250** | **$ (1,116)** | **$ (1,840)** | **$ 125,285** |
| Net earnings for the period | | $ — | $ 38,820 | $ — | $ — | $ 38,820 |
| *Other comprehensive income (loss):* | | | | | | |
| Foreign currency translation of foreign operations | | — | — | 789 | — | 789 |
| Cash flow hedges, net of reclassification to net earnings | *15* | — | — | — | (11,372) | (11,372) |
| **Total comprehensive income (loss)** | | **$ —** | **$ 38,820** | **$ 789** | **$ (11,372)** | **$ 28,237** |
| Cash flow hedges reclassified to assets, net of taxes | *15* | | | | 313 | $ 313 |
| **Balance, December 31, 2018** | | **$ 2,991** | **$ 164,070** | **$ (327)** | **$ (12,899)** | **$ 153,835** |

*The accompanying notes are an integral part of these interim condensed consolidated financial statements.*

## ABC Group Holdings Parent Inc.

## Interim Condensed Consolidated Statements of Cash Flows

(Expressed in thousands of United States dollars)

| (Unaudited) | Notes | For the three months ended December 31, 2018 | For the three months ended December 31, 2017 | For the six months ended December 31, 2018 | For the six months ended December 31, 2017 |
|---|---|---|---|---|---|
| **Cash flows from (used in) operating activities** | | | | | |
| Net earnings | | **$ 33,739** | $ 12,819 | **$ 38,820** | $ 17,576 |
| *Adjustments for:* | | | | | |
| Depreciation of property, plant and equipment | *6* | **8,192** | 7,221 | **16,368** | 14,898 |
| Amortization of intangible assets | *7* | **1,470** | 1,849 | **3,211** | 3,709 |
| Gain on disposal of property, plant and equipment | | **(27)** | — | **(389)** | — |
| Unrealized loss on derivative instruments | *15* | **709** | 2,938 | **1,008** | 2,738 |
| Interest expense | | **4,234** | 8,026 | **8,607** | 16,490 |
| Share of income of joint ventures | | **(2,139)** | (321) | **(3,569)** | (290) |
| Income tax expense | | **6,845** | 643 | **10,774** | 3,365 |
| Gain on disposal of assets held for sale | *3* | **(14,980)** | — | **(14,980)** | — |
| Reversal of non-tooling onerous contract provision | *8* | **(8,606)** | — | **(8,606)** | — |
| *Changes in:* | | | | | |
| Trade and other receivables and prepayments | | **39,121** | 15,580 | **46,167** | 38,701 |
| Inventories | | **(3,063)** | (8,413) | **(23,908)** | (27,381) |
| Trade and other payables and provisions | | **(27,819)** | 13,974 | **(15,120)** | 14,116 |
| **Cash generated from operating activities** | | **37,676** | 54,316 | **58,383** | 83,922 |
| Interest received | | **227** | 121 | **618** | 294 |
| Income taxes paid | | **(1,748)** | (6,357) | **(3,710)** | (11,638) |
| Interest paid | | **(4,661)** | (5,435) | **(9,309)** | (10,172) |
| **Net cash flows from operating activities** | | **31,494** | 42,645 | **45,982** | 62,406 |
| **Cash flows from (used in) investing activities** | | | | | |
| Purchase of property, plant and equipment | | **(15,094)** | (20,519) | **(32,303)** | (30,683) |
| Proceeds from disposal of assets held for sale, net of transaction costs | *3* | **22,731** | — | **22,731** | — |
| Dividends received from joint ventures | *13* | **2,500** | 1,250 | **2,500** | 2,500 |
| Proceeds from disposals of property, plant and equipment | | **142** | — | **1,124** | — |
| Additions to intangible assets | | **(5,014)** | (4,521) | **(10,677)** | (8,411) |
| **Net cash flows from (used in) investing activities** | | **5,265** | (23,790) | **(16,625)** | (36,594) |
| **Cash flows from (used in) financing activities** | | | | | |
| Proceeds from long-term debt | *9* | **—** | — | **—** | 80,000 |
| Financing costs | | **—** | — | **—** | (3,660) |
| Repayment of long-term debt | *9* | **—** | (24,375) | **—** | (35,000) |
| Return of capital | *10* | **—** | — | **—** | (67,463) |
| Dividends paid | *10* | **—** | — | **—** | (8,181) |
| **Net cash flows used in financing activities** | | **—** | (24,375) | **—** | (34,304) |
| **Net increase (decrease) in cash and cash equivalents** | | **36,759** | (5,520) | **29,357** | (8,492) |
| Net foreign exchange difference | | **(218)** | (3,833) | **(44)** | (1,040) |
| Cash and cash equivalents, beginning of period | | **29,557** | 45,796 | **36,785** | 45,975 |
| **Cash and cash equivalents, end of period** | | **$ 66,098** | $ 36,443 | **$ 66,098** | $ 36,443 |

*The accompanying notes are an integral part of these interim condensed consolidated financial statements.*

## 1. Corporate information

ABC Group Holdings Parent Inc. and its subsidiaries (collectively, “ABC” or the “Company”) is a tier one global automotive parts supplier that designs, engineers, manufactures and sells functional and decorative parts, as well as assemblies from injection, blow and polyurethane compression molding processes. The Company is incorporated and domiciled in Canada. The registered office is located at 2 Norelco Drive, Toronto, Ontario, Canada, M9L 2X6.

## 2. Basis of preparation

### 2.1. Statement of compliance

These interim condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), specifically International Accounting Standard ("IAS") 34 — Interim Financial Reporting, as issued by the International Accounting Standards Board ("IASB"). These interim condensed consolidated financial statements have been prepared using the same accounting policies and standards as were used for ABC's annual audited consolidated financial statements for the year ended June 30, 2018, except for new standards adopted during the period as described in note 2.5. These interim condensed consolidated financial statements do not include all of the information required for full annual financial statements, and should be read in conjunction with the Company's annual audited consolidated financial statements, including the notes thereto, for the year ended June 30, 2018.

These interim condensed consolidated financial statements were authorized for issue by the Company's Board of Directors on March 11, 2019.

### 2.2. Basis of measurement

The interim condensed consolidated financial statements have been measured on a historical cost basis, except as detailed in the accounting policies disclosed in the Company's annual audited consolidated financial statements for the year ended June 30, 2018.

### 2.3. Presentation currency

The interim condensed consolidated financial statements are presented in United States dollars, which is the Company’s presentation currency. All financial information has been rounded to the nearest thousand ($000), except per share amounts or when otherwise indicated.

### 2.4. Use of estimates, assumptions and judgments

The timely preparation of financial statements requires that management make estimates and assumptions and use judgment. Accordingly, actual results may differ from estimated amounts as future confirming events occur. Significant estimates and judgment used in the preparation of the interim condensed consolidated financial statements are described in the Company’s annual audited consolidated financial statements for the year ended June 30, 2018.

### 2.5. Recently adopted accounting standards and policies

*IFRS 15 - Revenue from contracts with customers*

On July 1, 2018, the Company adopted IFRS 15 Revenue from Contracts with Customers ("IFRS 15") using the retrospective method, which sets out guidelines for the recognition of revenue. IFRS 15 replaces IAS 18 Revenue and presents a new single model for recognition of revenue from contracts with customers. The model features a contract-based five-step analysis of transactions to determine the nature of an entity’s obligation to perform and whether, how much, and when revenue is recognized.

The following should be read as a modification to the significant accounting policies in note 3 of the Company's annual audited consolidated financial statements for the year ended June 30, 2018:

Revenue from the sale of goods is recognized at the point in time when control of the goods has passed to the buyer, usually on delivery of the goods as parts are shipped. Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns and allowances and trade discounts.

Revenue from the sale of tooling is recognized at the point in time when control of the goods has passed to the buyer, which is usually when the customer approves the tool for production readiness.

The adoption of IFRS 15 did not result in any restatement of the previously reported results and did not have a material impact on the consolidated financial statements.

*IFRS 9 - Financial instruments*

IFRS 9 Financial Instruments ("IFRS 9") replaces the provisions of IAS 39 Financial Instruments ("IAS 39") that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting. The adoption of IFRS 9 Financial Instruments from July 1, 2018 resulted in changes in accounting policies described below but did not result in significant changes in classification, measurement or the carrying amount of financial assets and liabilities. As permitted by IFRS 9, ABC has elected to not restate any comparatives and there were no material adjustments on July 1, 2018. The following should be read as a modification to the significant accounting policies in note 3 of the Company's annual audited consolidated financial statements for the year ended June 30, 2018:

*Classification and measurement*

From July 1, 2018, the Company classifies its financial assets in the following measurement categories:

- Those to be measured subsequently at fair value (either through other comprehensive income ("OCI"), or through profit or loss), and
- Those to be measured at amortized cost.

Financial liabilities are classified and measured based on two categories: amortized cost or fair value through profit or loss.

The classification of financial assets depends on the Company's business model for managing the financial assets and the contractual terms of the cash flows.

Derivative instruments are measured at fair value through profit or loss except those for which hedge accounting has been applied.

*Impairment of financial assets*

IFRS 9 replaces the “incurred loss” model in IAS 39 with a forward-looking “expected credit loss” (ECL) model. The ECL model is used in determining the allowance for doubtful accounts as it relates to trade and other receivables. The existing model aligns with the simplified approach under IFRS 9, which measures lifetime ECL and considers forward-looking information. The Company’s allowance is determined by historical experiences, and considers factors including the aging of the balances, the customer’s credit worthiness, and updates based on the current economic conditions, expectation of bankruptcies, and the political and economic volatility in the markets or location of customers. The adoption of IFRS 9 did not have a material impact on the Company’s policy for assessing impairment of financial assets.

*Derivatives and hedging*

The Company also adopted the new hedge accounting guidance in IFRS 9. The new hedge accounting guidance replaces strict quantitative tests of effectiveness with less restrictive assessments of how well the hedging instrument accomplishes the Company’s risk management objectives for financial and non-financial risk exposures. IFRS 9 also allows the Company to hedge risk components of non-financial items which meet certain measurability or identifiable characteristics.

On July 1, 2018, the Company applied hedge accounting to its Mexican Peso foreign exchange forwards and collars, which were not previously designated as cash flow hedges. Consequently, unrealized gains or losses from these hedges are recognized in other comprehensive income starting from July 1, 2018. The Company continues to apply hedge accounting to its Canadian Dollar foreign currency forwards and interest rate swaps. On July 1, 2018, after the adoption of IFRS 9, there is no material impact on the consolidated financial statements of the Company.

*Cash flow hedges that qualify for hedge accounting*

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in the cash flow hedge reserve within equity. The gain or loss relating to the ineffective portion is recognized immediately in profit or loss.

Amounts accumulated in equity are reclassified in the periods when the hedged item affects profit or loss, as follows:

- Where the hedged item subsequently results in the recognition of a non-financial asset, such as inventory, the deferred hedging gains and losses and cost of hedging, if any, are included within the initial cost of the asset. The deferred amounts are ultimately recognized in profit or loss as the hedged item affects profit or loss through cost of sales.
- The gain or loss relating to the effective portion of the interest rate swaps hedging variable rate borrowings is recognized in profit or loss within interest expense at the same time as the interest expense on the hedged borrowings.
- The gain or loss relating to the effective portion of the foreign currency forwards or collars, and cost of hedging, to mitigate the impact of loss from fluctuations in currencies in certain costs within selling, general and administrative expense is recognized in profit or loss at the same time as the forecast transaction affects profit or loss.

When a hedging instrument expires, or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative deferred gain or loss and deferred costs of hedging in equity at that time remains in equity until the forecast transaction occurs. When the forecast transaction is no longer expected to occur, the cumulative gain or loss and deferred costs of hedging that were reported in equity are immediately reclassified to profit or loss.

On a quarterly basis, the Company assesses whether the derivative designated in each hedging relationship is expected to be, and has been, highly effective in offsetting changes in cash flows of the hedged item prospectively. Sources of ineffectiveness could be:

- The effect of the counterparty and the Company's own credit risk on the fair value of the derivative instruments, which is not reflected in the fair value of the hedged items attributable to the changes in interest rate and foreign currency.
- Differences in maturities of the derivative instruments and the hedged items.
- If the initial fair value of the hedging instrument is other than zero at the date of inception of the hedging relationship.

*Cost of hedging reserve*

The Company uses forward exchange contracts and collars to hedge the variability in cash flows arising from changes in foreign exchange rates on forecasted transactions. The Company designates only the forward element of the forward exchange contracts and the intrinsic value of the options as the hedging instrument in the cash flow hedging relationships. Foreign currency basis adjustments and time value of options are excluded from the hedging instruments and recognized in OCI and accumulated in a cost of hedging reserve, as a separate component within equity. The gains or losses in the reserve are removed and accounted for similar to cash flow hedges that qualify for hedge accounting as described above.

### 2.6. Standards issued but not yet effective

*IFRS 16 — Leases*

In January 2016, the IASB issued the final publication of IFRS 16, superseding IAS 17, Leases and IFRIC 4, Determining Whether an Arrangement Contains a Lease. The standard applies a control model to the identification of leases, distinguishing between leases and service contracts on the basis of whether there is an identified asset controlled by the customer. For leases, the standard removes the distinction between operating and finance leases with assets and liabilities recognized in respect of all leases. The standard is effective for annual periods beginning on or after January 1, 2019 with early adoption permitted if IFRS 15 has been adopted. The Company is currently assessing the impact of IFRS 16 on its consolidated financial statements.

## 3. Disposal of assets held for sale

On November 1, 2018, the Company completed a transaction to sell its packaging manufacturing facilities ("Polybottle Group") included as part of its North American segment, for $22,731 (CAD 30,054) including working capital adjustments. The Company realized a $14,980 gain from this transaction.

From July 1, 2018 to the closing date of the transaction, Polybottle Group generated $8,529 of sales, which include $133 of sales made to other subsidiaries of the Company. During the year ended June 30, 2018, Polybottle Group generated $24,174 (2017: $22,286) of sales, which include $334 (2017: $465) of sales made to other subsidiaries of the Company.

(Expressed in thousands of United States dollars, except per share figures) (unaudited)

### 4. Trade and other receivables

| | Notes | December 31, 2018 | June 30, 2018 |
|---|---|---|---|
| Trade receivables | | **$ 72,750** | $ 116,358 |
| Receivables from joint ventures | *13* | **1,760** | 4,428 |
| **Total trade and other receivables** | | **$ 74,510** | $ 120,786 |

### 5. Inventories

| | December 31, 2018 | June 30, 2018 |
|---|---|---|
| Raw materials and components | **$ 31,553** | $ 22,135 |
| Finished goods and work in progress | **19,139** | 13,249 |
| Tooling | **61,606** | 55,383 |
| **Total inventories** | **$ 112,298** | $ 90,767 |

### 6. Property, plant and equipment

| | Land | Building | Machinery and equipment | Production tooling | Returnable containers | Leasehold improvements | Total |
|---|---|---|---|---|---|---|---|
| <u>**Cost**</u> | | | | | | | |
| **As at June 30, 2017** | $ 1,288 | $ 5,698 | $ 200,612 | $ 55,610 | $ 4,235 | $ 944 | $268,387 |
| Additions | — | 1,225 | 57,691 | 3,868 | 1,320 | 2,535 | 66,639 |
| Disposals | — | — | (755) | — | — | — | (755) |
| Foreign exchange | — | (99) | (700) | (3) | (13) | (3) | (818) |
| **As at June 30, 2018** | **$ 1,288** | **$ 6,824** | **$ 256,848** | **$ 59,475** | **$ 5,542** | **$ 3,476** | **$333,453** |
| Additions | — | 104 | 20,619 | 4,733 | 388 | 1,377 | 27,221 |
| Disposals | (575) | (37) | (3,886) | (118) | — | (439) | (5,055) |
| Foreign exchange | (11) | (59) | (427) | (34) | (2) | (9) | (542) |
| **As at December 31, 2018** | **$ 702** | **$ 6,832** | **$ 273,154** | **$ 64,056** | **$ 5,928** | **$ 4,405** | **$355,077** |
| <u>**Accumulated depreciation**</u> | | | | | | | |
| **As at June 30, 2017** | $ — | $ 141 | $ 20,379 | $ 3,414 | $ 1,558 | $ 31 | $ 25,523 |
| Depreciation | — | 186 | 27,161 | 3,022 | 1,316 | 145 | 31,830 |
| Disposals | — | — | (628) | — | — | — | (628) |
| Foreign exchange | — | (10) | (74) | 20 | (4) | — | (68) |
| **As at June 30, 2018** | **$ —** | **$ 317** | **$ 46,838** | **$ 6,456** | **$ 2,870** | **$ 176** | **$ 56,657** |
| Depreciation | — | 106 | 13,890 | 1,645 | 589 | 138 | 16,368 |
| Disposals | — | (1) | (1,274) | (84) | — | (9) | (1,368) |
| Foreign exchange | — | (6) | (127) | (6) | (4) | — | (143) |
| **As at December 31, 2018** | **$ —** | **$ 416** | **$ 59,327** | **$ 8,011** | **$ 3,455** | **$ 305** | **$ 71,514** |
| <u>**Net book value**</u> | | | | | | | |
| **As at December 31, 2018** | **$ 702** | **$ 6,416** | **$ 213,827** | **$ 56,045** | **$ 2,473** | **$ 4,100** | **$283,563** |
| **As at June 30, 2018** | $ 1,288 | $ 6,507 | $ 210,010 | $ 53,019 | $ 2,672 | $ 3,300 | $276,796 |

(Expressed in thousands of United States dollars, except per share figures) (unaudited)

## 7. Intangible assets and goodwill

| | Customer contracts | Customer relationships | Development intangibles | Total Intangible Assets | Goodwill |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| **As at June 30, 2017** | $ 24,795 | $ 14,495 | $ 15,463 | $ 54,753 | $ 18,944 |
| Additions | — | — | 18,900 | 18,900 | — |
| **As at June 30, 2018** | **$ 24,795** | **$ 14,495** | **$ 34,363** | **$ 73,653** | **$ 18,944** |
| Additions | — | — | 10,677 | 10,677 | — |
| **As at December 31, 2018** | **$ 24,795** | **$ 14,495** | **$ 45,040** | **$ 84,330** | **$ 18,944** |
| **Accumulated amortization** | | | | | |
| **As at June 30, 2017** | $ 3,542 | $ 1,115 | $ 1,359 | $ 6,016 | $ — |
| Amortization | 3,542 | 1,115 | 3,971 | 8,628 | — |
| **As at June 30, 2018** | **$ 7,084** | **$ 2,230** | **$ 5,330** | **$ 14,644** | **$ —** |
| Amortization | 1,771 | 558 | 882 | 3,211 | — |
| **As at December 31, 2018** | **$ 8,855** | **$ 2,788** | **$ 6,212** | **$ 17,855** | **$ —** |
| **Net book value** | | | | | |
| **As at December 31, 2018** | **$ 15,940** | **$ 11,707** | **$ 38,828** | **$ 66,475** | **$ 18,944** |
| **As at June 30, 2018** | $ 17,711 | $ 12,265 | $ 29,033 | $ 59,009 | $ 18,944 |

(Expressed in thousands of United States dollars, except per share figures) (unaudited)

## 8. Provisions

The following table provides a continuity of the provision balances for the six months ended December 31, 2018 and the year ended June 30, 2018:

| | Onerous contracts | Other provisions | Total |
|---|---|---|---|
| **As at June 30, 2017** | $ 11,062 | $ 13,564 | $ 24,626 |
| Additions during the year | 74 | 8,715 | 8,789 |
| Utilized | (660) | (7,486) | (8,146) |
| Reversals | (591) | — | (591) |
| Accretion expense | 109 | — | 109 |
| **As at June 30, 2018** | **$ 9,994** | **$ 14,793** | **$ 24,787** |
| Additions during the period | 1,459 | 3,174 | 4,633 |
| Utilized | (272) | (5,821) | (6,093) |
| Reversals | (8,606) | (3,378) | (11,984) |
| Accretion expense | 41 | — | 41 |
| **As at December 31, 2018** | **$ 2,616** | **$ 8,768** | **$ 11,384** |
| **As at December 31, 2018** | | | |
| Current portion | $ 2,616 | $ 8,768 | $ 11,384 |
| **As at June 30, 2018** | | | |
| Current portion | $ 2,905 | $ 14,793 | $ 17,698 |
| Non-current portion | 7,089 | — | 7,089 |

On June 30, 2018 the Company had onerous contract provisions associated with tooling contracts and an onerous contract related to production of an automotive part.

During the second quarter of 2019, the Company reversed $8,606 of provision related to the production of an automotive part since the cost to fulfill the contract no longer exceeded the expected economic benefit due to manufacturing process improvements. This reversal was included in cost of sales in the interim condensed consolidated statements of comprehensive income.

Included in other provisions are estimated amounts owed as a result of modifications to contractual terms of customer contracts and warranties.

## 9. Long-term debt

| | Maturity | December 31, 2018 | June 30, 2018 |
|---|---|---|---|
| **Interest-bearing loans and borrowings** | | | |
| Term facility | May 9, 2023 | **$ 305,000** | 305,000 |
| Less: Unamortized deferred financing costs on term facility | | **8,573** | 8,577 |
| | | **$ 296,427** | $ 296,423 |

The Company has $150,000 of revolving credit facility available, which also matures on May 9, 2023. There was no amount drawn on the revolving credit facility as at December 31, 2018 and June 30, 2018.

As at December 31, 2018, the weighted average effective interest rate on the credit facility was 5.52% (June 30, 2018: 5.34%), and $4,633 (June 30, 2018: $5,097) of letters of credit were issued against the credit facility.

(Expressed in thousands of United States dollars, except per share figures) (unaudited)

The credit facility is collateralized by a security agreement over all the property and assets of ABC Group Inc., a wholly-owned subsidiary of the Company, and a majority of its subsidiaries.

The credit facility requires ABC Group Inc. to maintain certain financial covenants and contains certain other covenants that, subject to certain exceptions, restrict the ability of ABC Group Inc. and its subsidiaries to create security interests, incur additional indebtedness or dispose of all or substantially all of their assets. At December 31, 2018 and June 30, 2018, ABC Group Inc. was in compliance with all of its covenants.

The credit facility is repayable in quarterly installments starting on December 31, 2019 in accordance with the terms of the credit agreement. Principal repayments required on the credit agreement as at December 31, 2018 are as follows:

| **Payments:** | | |
|---|---|---|
| Within one year | $ | 4,000 |
| 2 - 3 years | | 46,000 |
| 4 - 5 years | | 255,000 |
| | **$** | **305,000** |

Under the terms of the credit agreement, ABC Group Inc. is entitled to make voluntary repayments which may reduce the scheduled principal repayments.

The following table provides a continuity of the term facility balances:

| | | **Long-Term Debt** |
|---|---|---|
| **As at June 30, 2017** | **$** | **333,830** |
| Proceeds from long-term debt | | 80,000 |
| Increase in deferred financing costs | | (4,338) |
| Repayment of long-term debt | | (120,000) |
| Impact of changes in expected cash flow on deferred financing costs | | 1,905 |
| Amortization of deferred financing costs | | 5,026 |
| **As at June 30, 2018** | **$** | **296,423** |
| Impact of changes in expected cash flow on deferred financing costs | | (1,991) |
| Amortization of deferred financing costs | | 1,995 |
| **As at December 31, 2018** | **$** | **296,427** |

## 10. Capital stock

| | | **December 31, 2018** | **June 30, 2018** |
|---|---|---|---|
| 100,000 common shares | **$** | **2,991** | 2,991 |

The Company is authorized to issue an unlimited number of common shares without nominal or par value.

During the three and six months ended December 31, 2018 the Company did not return any capital to its shareholder. During the three and six months ended December 31, 2017, the Company returned capital to its shareholder in the amounts of $nil and $67,463, respectively. Capital was returned by way of cash consideration.

No dividends were declared to the shareholder for the three and six months ended December 31, 2018. During the three and six months ended December 31, 2017, the Company declared dividends of $nil and $8,181 ($81.81 per share), respectively.

(Expressed in thousands of United States dollars, except per share figures) (unaudited)

### 11. Selling, general and administrative expense

| | For the three months ended December 31, | | For the six months ended December 31, | |
|---|---|---|---|---|
| | **2018** | **2017** | **2018** | **2017** |
| Wages and benefits | **$ 11,022** | $ 13,073 | **$ 22,551** | $ 24,133 |
| Transactional and recruitment bonuses | **—** | 1,762 | **—** | 4,267 |
| Professional fees | **2,183** | 1,069 | **4,134** | 1,914 |
| Business transformation related consulting fees | **1,779** | 2,878 | **3,837** | 5,276 |
| Depreciation and amortization | **1,998** | 1,849 | **4,335** | 3,709 |
| Information technology | **1,190** | 802 | **2,119** | 1,610 |
| Freight and duty | **542** | 530 | **1,091** | 1,081 |
| Travel expense | **514** | 515 | **938** | 839 |
| Bank charges | **229** | 377 | **525** | 706 |
| Foreign exchange loss (gain) | **95** | 897 | **3,130** | (1,382) |
| Other | **2,111** | 1,663 | **3,831** | 3,610 |
| **Total selling, general, and administrative expense** | **$ 21,663** | $ 25,415 | **$ 46,491** | $ 45,763 |

### 12. Segmented information

The Company’s sales depend primarily upon light vehicle production in the North American market and the rest of the world. OEM production volumes in each of these regions may be impacted by a number of geographic factors, including general economic conditions, interest rates, consumer credit availability, fuel prices and availability, infrastructure, legislative changes, environmental emission and safety issues, and labour and/or trade relations.

Given the differences between the regions in which the Company operates, the Company’s segments are segregated on a geographic basis between North America and Rest of World. The Rest of World segment includes operating segments that are not individually reportable. In addition, given that the chief operating decision maker ("CODM") regularly reviews the operating results and performance of the equity-accounted joint ventures and is responsible for making resource allocation decisions to the joint ventures, the Company has also identified its joint ventures as a segment. The joint ventures have been aggregated into one reportable segment given that they hold similar economic characteristics, customers and products. The accounting policies of the segments are the same as those described in the significant accounting policies of the consolidated financial statements.

The Company measures segment performance based on Adjusted EBITDA, as this is the basis for the CODM to evaluate the performance of each of the Company’s segments. Adjusted EBITDA is defined as earnings before interest, taxes, depreciation, amortization, and other reconciling items described in the table below. For the joint venture segment, information is presented on a proportionate consolidation basis, as this is the basis upon which the CODM makes strategic decisions.

(Expressed in thousands of United States dollars, except per share figures) (unaudited)

The following financial information is presented by segment and is reconciled to the consolidated financial statements, except for Adjusted EBITDA, a non-IFRS measure:

| For the three months ended December 31, 2018 | North America | Rest of World | Joint Ventures[1] | Total | Adjustments[2] | Total Reportable Segments |
|---|---|---|---|---|---|---|
| **Revenue** | | | | | | |
| External customers | $ 237,740 | $ 11,859 | $ 30,960 | $ 280,559 | $ (30,960) | $ 249,599 |
| Inter-segment revenues | 2,975 | 206 | 1,136 | 4,317 | (4,317) | — |
| **Total revenue** | **$ 240,715** | **$ 12,065** | **$ 32,096** | **$ 284,876** | **$ (35,277)** | **$ 249,599** |
| Capital additions | 15,538 | 888 | 867 | 17,293 | (867) | 16,426 |
| Adjusted EBITDA[3] | $ 40,922 | $ 3,143 | $ 3,402 | $ 47,467 | $ — | $ 47,467 |

| For the six months ended December 31, 2018 | North America | Rest of World | Joint Ventures[1] | Total | Adjustments[2] | Total Reportable Segments |
|---|---|---|---|---|---|---|
| **Revenue** | | | | | | |
| External customers | $ 463,793 | $ 24,351 | $ 61,080 | $ 549,224 | $ (61,080) | $ 488,144 |
| Inter-segment revenues | 4,802 | 493 | 1,983 | 7,278 | (7,278) | — |
| **Total revenue** | **$ 468,595** | **$ 24,844** | **$ 63,063** | **$ 556,502** | **$ (68,358)** | **$ 488,144** |
| Capital additions | 25,895 | 1,326 | 1,285 | 28,506 | (1,285) | 27,221 |
| Adjusted EBITDA[3] | $ 71,367 | $ 2,410 | $ 6,300 | $ 80,077 | $ — | $ 80,077 |

| As at December 31, 2018 | North America | Rest of World | Joint Ventures[1] | Total | Adjustments[2] | Total Reportable Segments |
|---|---|---|---|---|---|---|
| Total assets | 671,722 | 58,273 | 92,684 | 822,679 | (135,631) | 687,048 |
| Total liabilities | 519,202 | 58,990 | 46,450 | 624,642 | (91,429) | 533,213 |

1. The joint venture segment is presented on a 50% basis which corresponds to the Company's proportionate share of ownership in the joint ventures.
2. The adjustments and eliminations include the reversal of the joint ventures at 50%, with the exception of Adjusted EBITDA.
3. Adjusted EBITDA is a non-IFRS measure.

(Expressed in thousands of United States dollars, except per share figures) (unaudited)

| For the three months ended December 31, 2017 | North America | Rest of World | Joint Ventures[1] | Total | Adjustments[2] | Total Reportable Segments |
|---|---|---|---|---|---|---|
| **Revenue** | | | | | | |
| External customers | $ 235,314 | $ 14,141 | $ 33,564 | $ 283,019 | $ (33,564) | $ 249,455 |
| Inter-segment revenues | 3,903 | 276 | 583 | 4,762 | (4,762) | — |
| **Total revenue** | **$ 239,217** | **$ 14,417** | **$ 34,147** | **$ 287,781** | **$ (38,326)** | **$ 249,455** |
| Capital additions | 11,403 | 1,738 | 3,564 | 16,705 | (3,564) | 13,141 |
| Adjusted EBITDA[3] | $ 37,669 | $ 25 | $ 1,784 | $ 39,478 | $ — | $ 39,478 |

| For the six months ended December 31, 2017 | North America | Rest of World | Joint Ventures[1] | Total | Adjustments[2] | Total Reportable Segments |
|---|---|---|---|---|---|---|
| **Revenue** | | | | | | |
| External customers | $ 443,687 | $ 26,191 | $ 63,416 | $ 533,294 | $ (63,416) | $ 469,878 |
| Inter-segment revenues | 5,864 | 488 | 1,187 | 7,539 | (7,539) | — |
| **Total revenue** | **$ 449,551** | **$ 26,679** | **$ 64,603** | **$ 540,833** | **$ (70,955)** | **$ 469,878** |
| Capital additions | 23,160 | 2,238 | 5,340 | 30,738 | (5,340) | 25,398 |
| Adjusted EBITDA[3] | $ 68,432 | $ (330) | $ 3,796 | $ 71,898 | $ — | $ 71,898 |

| As at June 30, 2018 | North America | Rest of World | Joint Ventures[1] | Total | Adjustments[2] | Total Reportable Segments |
|---|---|---|---|---|---|---|
| Total assets | 659,007 | 53,466 | 94,856 | 807,329 | (133,926) | 673,403 |
| Total liabilities | 532,295 | 56,895 | 49,589 | 638,779 | (90,661) | 548,118 |

1. The joint venture segment is presented on a 50% basis which corresponds to the Company's proportionate share of ownership in the joint ventures.
2. The adjustments and eliminations include the reversal of the joint ventures at 50%, with the exception of Adjusted EBITDA.
3. Adjusted EBITDA is a non-IFRS measure.

(Expressed in thousands of United States dollars, except per share figures) (unaudited)

The following table provides a reconciliation of Net income to Adjusted EBITDA[1]:

| | | For the three months ended December 31, | | For the six months ended December 31, | |
|---|---|---|---|---|---|
| | Notes | 2018 | 2017 | 2018 | 2017 |
| **Adjusted EBITDA[1]** | | **$ 47,467** | **$ 39,478** | **$ 80,077** | **$ 71,898** |
| *Adjustments:* | | | | | |
| Depreciation of property, plant and equipment | 6 | (8,192) | (7,221) | (16,368) | (14,898) |
| Interest expense | | (4,234) | (8,026) | (8,607) | (16,490) |
| Transactional and recruitment bonuses[2] | 11 | — | (1,762) | — | (4,267) |
| Business transformation related consulting fees[3] | 11 | (1,779) | (2,878) | (3,837) | (5,276) |
| Gain on disposal of assets held for sale | 3 | 14,980 | — | 14,980 | — |
| Additional launch costs[4] | | (12,849) | — | (18,269) | — |
| Changes to non-tooling onerous contracts | | 8,606 | 121 | 8,179 | (73) |
| Income tax expense | | (6,845) | (643) | (10,774) | (3,365) |
| Amortization of intangible assets | 7 | (1,470) | (1,849) | (3,211) | (3,709) |
| Unrealized loss on derivative instruments | | (709) | (2,938) | (1,008) | (2,738) |
| Gain on disposal of property, plant and equipment | | 27 | — | 389 | — |
| EBITDA from joint ventures[5] | | (3,402) | (1,784) | (6,300) | (3,796) |
| Share of income of joint ventures | | 2,139 | 321 | 3,569 | 290 |
| **Net earnings** | | **$ 33,739** | **$ 12,819** | **$ 38,820** | **$ 17,576** |

1. Adjusted EBITDA is a non-IFRS measure.
2. Represents employee bonuses paid upon the successful refinancing of long-term debt and signing bonuses paid to newly hired employees.
3. Represents costs including consulting fees associated with enhancing business operations, organizational capability and related processes.
4. Represents additional launch costs associated with large programs included in cost of sales and selling, general, and administrative expense.
5. EBITDA from joint ventures represents earnings before interest, taxes, and depreciation for the joint venture segment.

The Company operates in the following main geographical areas:

| **Revenue[1] for the three months ended December 31,** | **Canada** | **United States** | **Mexico** | **Rest of World** | **Consolidated financial statements** |
|---|---|---|---|---|---|
| 2018 | $ 81,189 | $ 88,238 | $ 68,313 | $ 11,859 | $ 249,599 |
| 2017 | $ 87,430 | $ 76,217 | $ 71,667 | $ 14,141 | $ 249,455 |

| **Revenue[1] for the six months ended December 31,** | **Canada** | **United States** | **Mexico** | **Rest of World** | **Consolidated financial statements** |
|---|---|---|---|---|---|
| 2018 | 156,544 | 165,754 | 141,495 | 24,351 | 488,144 |
| 2017 | 162,868 | 153,615 | 127,204 | 26,191 | 469,878 |

| | **Canada** | **United States** | **Mexico** | **Rest of World** | **Consolidated financial statements** |
|---|---|---|---|---|---|
| Non-current assets[2] as at December 31, 2018 | 127,861 | 100,876 | 114,219 | 26,026 | 368,982 |
| Non-current assets[2] as at June 30, 2018 | 130,458 | 89,378 | 107,593 | 27,320 | 354,749 |

1. Revenue is allocated based on the country in which the order is received.
2. Non-current assets include property, plant, and equipment, intangible assets, and goodwill.

(Expressed in thousands of United States dollars, except per share figures) (unaudited)

### 13. Related party transactions

The following table provides the total amount of transactions that have been entered into with the joint ventures:

| | For the three months ended December 31, 2018 | | For the six months ended December 31, 2018 | | As at December 31, 2018 | |
|---|---|---|---|---|---|---|
| | Purchases from JVs | Sales to JVs | Purchases from JVs | Sales to JVs | Trade payables to JVs | Trade receivables from JVs |
| **Joint venture in which the Company is a venturer:** | | | | | | |
| ABC INOAC Exterior Systems Inc. | $ 803 | $ 1,744 | $ 912 | $ 3,142 | $ 816 | $ 1,271 |
| ABC INOAC Exterior Systems LLC | — | 10 | — | 51 | — | 36 |
| ABCOR Filters | 1,468 | 4 | 3,053 | 6 | 527 | 121 |
| INOAC Huaxiang | — | 28 | — | 64 | — | 332 |

| | For the three months ended December 31, 2017 | | For the six months ended December 31, 2017 | | As at June 30, 2018 | |
|---|---|---|---|---|---|---|
| | Purchases from JVs | Sales to JVs | Purchases from JVs | Sales to JVs | Trade payables to JVs | Trade receivables from JVs |
| **Joint venture in which the Company is a venturer:** | | | | | | |
| ABC INOAC Exterior Systems Inc. | $ — | $ 2,946 | $ — | $ 4,774 | $ 223 | $ 3,388 |
| ABC INOAC Exterior Systems LLC | — | 391 | — | 510 | — | 394 |
| ABCOR Filters | 1,165 | — | 2,373 | — | 520 | 151 |
| INOAC Huaxiang | — | 38 | — | 53 | — | 495 |

Receivables from joint ventures are non-interest bearing and are normally settled in 30 to 90 day terms.

During the three and six months ended December 31, 2018, the Company received dividends from ABC INOAC Exterior Systems LLC in the amount of $2,500 (2017: $1,250) and $2,500 (2017: $2,500), respectively.

### 14. Earnings per share

Basic and diluted earnings per share are calculated by dividing the net earnings attributable to the shareholder of the Company by the weighted average number of ordinary shares outstanding during the period.

| | For the three months ended December 31, | | For the six months ended December 31, | |
|---|---|---|---|---|
| | **2018** | **2017** | **2018** | **2017** |
| Net earnings | **$ 33,739** | $ 12,819 | **$ 38,820** | $ 17,576 |
| Weighted average number of ordinary shares | **100,000** | 100,000 | **100,000** | 100,000 |
| **Earnings per share - basic and diluted** | **$ 337.39** | $ 128.19 | **$ 388.20** | $ 175.76 |

(Expressed in thousands of United States dollars, except per share figures) (unaudited)

## 15. Financial assets and financial liabilities

### 15.1 Financial assets

Trade and other receivables are non-derivative financial assets carried at amortized cost. The fair value may be affected by changes in the credit risk of the counterparties. The carrying values of the Company's financial instruments approximate their fair values.

### 15.2 Financial liabilities

Financial liabilities at amortized cost are initially measured at fair value less transaction costs. The difference between the initial carrying amount and the redemption value is recognized in profit or loss over the duration of the contract using the effective interest rate ("EIR") method. Term loan issuance costs relate to the duration of the loan, and as a result are amortized over the expected life using an EIR consistent with the base interest rate.

### 15.3 Fair values

Management assessed that the fair values of cash and cash equivalents, trade and other receivables, and trade and other payables approximate their carrying values largely due to the short-term maturities of these instruments. The carrying value of long-term debt approximates its fair value as the balance represents a floating rate term loan. The Company's other long-term liabilities are non-interest bearing and carried at redemption value which approximates their fair value.

The Company measures its derivative financial instruments at fair value. The following table provides the fair value, determined as at December 31, 2018 and June 30, 2018, and fair value measurement hierarchy of these derivative financial instruments:

| | December 31, 2018 | June 30, 2018 | Fair value hierarchy |
|---|---|---|---|
| **Derivative assets (liabilities)** | | | |
| *Derivatives designated as cash flow hedging instruments:* | | | |
| Interest-rate swaps – USD LIBOR | **$ 1,908** | $ 3,080 | Level 2 |
| Foreign exchange forward contracts – Canadian dollar | **(14,515)** | (1,843) | Level 2 |
| Foreign exchange forward contracts and collars – Mexican Peso | **(76)** | — | Level 2 |
| *Derivatives not designated as hedging instruments:* | | | |
| Foreign exchange forward contracts and collars – Mexican Peso | **—** | 2,553 | Level 2 |
| Total derivative assets, net | **$ (12,683)** | $ 3,790 | |
| Total current (included in prepaid expenses and other) | **$ (1,583)** | $ 2,439 | |
| Total non-current | **$ (11,100)** | $ 1,351 | |

The Company enters into derivative financial instruments with Canadian Schedule 1 banks that have investment grade credit ratings. Interest rate swaps, foreign exchange forward contracts and collars are valued using valuation techniques, which employ the use of market observable inputs. The most frequently applied valuation techniques include forward pricing and swap models using present value calculations. The models incorporate various inputs including the credit quality of counterparties, foreign exchange spot and forward rates, yield curves of the respective currencies, currency basis spreads between the respective currencies and interest rate curves. Changes in counterparty credit risk had no material effect on the hedge effectiveness assessment for derivatives designated in hedge relationships and the fair value recognized on derivative financial instruments.

### 15.4 Financial instruments risk management objectives and policies

The Company's principal financial liabilities comprise long-term debt and trade and other payables. The main purpose of these financial liabilities is to finance the Company's operations. The Company's principal financial assets include trade and other receivables, and cash and cash equivalents that derive directly from its operations. The Company also enters into derivative transactions.

The Company is exposed to market risk, credit risk and liquidity risk. The Company's senior management manages the financial risks and develops the appropriate financial risk governance framework for the Company. The Company's senior management reports to the Board of Directors that the Company's financial risk activities are governed by appropriate policies and procedures and that financial risks are identified, measured and managed in accordance with the Company's policies and risk objectives. All derivative activities for risk management purposes are carried out by a specialist team that has the appropriate skills and experience, under the supervision of senior management with final approval from the Board of Directors. It is the Company's policy that it does not trade in derivatives for speculative purposes.

(Expressed in thousands of United States dollars, except per share figures) (unaudited)

The policies for managing each of these risks are summarized below:

#### 15.4.1 Hedging activities and derivatives

*Foreign currency contracts*

The Company uses revenue denominated in foreign currency and foreign exchange forward contracts and collars to manage some of its exposure on foreign currency denominated transactions. The foreign exchange forward contracts and collars are entered into for periods consistent with foreign currency exposure of the underlying transactions, generally from one to 54 months.

The notional amounts of the derivative financial instruments as at December 31, 2018 are detailed below.

| | Maturity | | | |
|---|---|---|---|---|
| | **Less than 3 months** | **3–12 months** | **1–5 years** | **Total** |
| **Designated as hedging instruments:** | | | | |
| *Foreign currency forwards* | | | | |
| Canadian dollars | $ 28,406 | $ 83,768 | $ 247,804 | **$ 359,978** |
| Average USD-CAD exchange rate | 1.30 | 1.30 | 1.29 | |
| *Foreign currency collars* | | | | |
| Mexican pesos | $ 2,980 | $ 8,022 | $ 14,503 | **$ 25,505** |
| Floor: average USD-MXN exchange rate | 22.00 | 22.63 | 23.65 | |
| Cap: average USD-MXN exchange rate | 25.07 | 25.82 | 27.13 | |
| *Foreign currency forwards* | | | | |
| Mexican pesos | $ 5,227 | $ 13,975 | $ 67,488 | **$ 86,690** |
| Average USD-MXN exchange rate | 19.79 | 20.28 | 22.27 | |

On July 1, 2017, the Company began to designate its USD-CAD foreign currency forwards as cash flow hedges. The cash flow hedges of USD-CAD foreign currency forwards were assessed to be effective and the Company recognized an unrealized loss of $17,326 (2017: $2,427) in OCI for the three months ended December 31, 2018, and recognized an unrealized loss of $12,202 (2017: gain of $8,593) in OCI for the six months ended December 31, 2018. On the same instruments, the Company realized net losses of $227 (2017: gain of $615) for the three months ended December 31, 2018 and net losses of $361 (2017: gains of $1,417) for the six months ended December 31, 2018. Of these amounts, realized losses of $379 (2017: gains of $341) during the three months ended December 31, 2018 and realized losses of $669 (2017: gains of $875) during the six months ended December 31, 2018 were reclassified from OCI to inventories and included as part of the cost of inventories that were recognized in cost of sales. Additionally, realized losses of $91 (2017: loss of $30) for the three months ended December 31, 2018 and realized losses of $161 (2017: gains of $116) for the six months ended December 31, 2018 were reclassified from OCI to profit or loss and included in selling, general and administrative expenses.

On July 1, 2018, the Company began to designate its USD-MXN foreign currency forwards and collars as cash flow hedges. The cash flow hedges of USD-MXN forwards and collars were assessed to be effective and the Company recognized an unrealized loss of $5,965 (2017: $nil) in OCI for the three months ended December 31, 2018, and recognized an unrealized loss of $2,089 (2017: $nil) in OCI for the six months ended December 31, 2018. On the same instruments, the Company realized gains of $214 (2017: loss of $343) for the three months ended December 31, 2018, and realized gains of $814 (2017: $978) for the six months ended December 31, 2018. Of these amounts, realized losses of $37 (2017: $nil) during the three months ended December 31, 2018 and realized gains of $231 (2017: $nil) during the six months ended December 31, 2018 were reclassified from OCI to inventories and included as part of the cost of inventories that were recognized in cost of sales. Additionally, realized losses of $7 (2017: $nil) for the three months ended December 31, 2018 and realized gains of $43 (2017: $nil) for the six months ended December 31, 2018 were reclassified from OCI to profit or loss and included in selling, general and administrative expenses.

(Expressed in thousands of United States dollars, except per share figures) (unaudited)

*Interest rate swaps*

The Company uses interest rate swaps to hedge the interest rate risks in respect of benchmark interest rates. To maximize hedge effectiveness, the Company's policy is to only hedge the risk in respect of benchmark interest rates and the credit risk spread on the hedged item is excluded.

At December 31, 2018, the Company had an interest rate swap agreement with a notional amount of $162,000 (June 30, 2018: $169,000) whereby the Company pays a fixed rate of interest of 0.924% (June 30, 2018: 0.924%) and receives interest at a floating rate equal to 1-month USD LIBOR on the notional amount. The swap is being used to hedge the exposure to variable interest payments on the interest-bearing liability that the Company pays USD LIBOR plus an applicable margin. The interest rate swap agreement matures on September 30, 2019.

The notional amounts of the interest rate swap agreement as at December 31, 2018 is detailed below.

| | | Maturity | |
|---|---|---|---|
| | **Interest paid by the Company** | **Less than 3 months** | **3–12 months** |
| **Designated as hedging instruments:** | | | |
| Notional amount | Fixed | $ 161,719 | $ 156,445 |
| Average fixed interest rate | | 0.924% | 0.924% |

The cash flow hedges of the expected interest payments were assessed to be effective and a net unrealized loss of $775 (2017: net unrealized gain of $571) during the three months ended December 31, 2018 and a net unrealized loss of $1,173 (2017: net unrealized gain of $533) during the six months ended December 31, 2018 relating to the hedging instruments were included in OCI. The Company realized gains of $592 (2017: $156) during the three months ended December 31, 2018 and realized gains of $1,086 (2017: $295) during the six months ended December 31, 2018 on the interest rate swaps designated as cash flow hedges. The same amounts of realized gains were reclassified from OCI during the respective periods and reclassified to profit or loss, and included in interest expense.

### 15.4.2 Other risks

*Market risk*

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: interest rate risk, foreign currency risk and other price risk, such as commodity risk. Financial instruments affected by market risk include cash and cash equivalents, trade and other receivables, inventories, trade payables, accrued liabilities and other payables, long-term debt, and derivative financial instruments.

The sensitivity analysis in the following sections relate to the position as at December 31, 2018 and June 30, 2018.

*Interest rate risk and sensitivity*

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's exposure to the risk of changes in market interest rates relates primarily to the Company's long-term debt obligation with floating interest rates. The assumed movement in basis points for the interest rate sensitivity analysis is based on the currently observable market environment, showing a significantly higher volatility than in prior years.

The Company manages its interest rate risk by having a balanced portfolio of fixed and floating rate loans and borrowings. To manage this, the Company enters into interest rate swaps, in which it agrees to exchange, at specified intervals, the difference between fixed and floating rate interest amounts calculated by reference to an agreed-upon notional principal amount. At December 31, 2018, after taking into account the effect of interest rate swaps, approximately 53% (June 30, 2018: 55%) of the Company's borrowings are at a fixed rate of interest.

With all other variables held constant, an increase in interest rate of 50 basis points would have a negative impact on pre-tax earnings for the three months ended December 31, 2018 of $382 (2017: $488), and $763 (2017: $975) for the six months ended December 31, 2018 on an unhedged basis, and vice versa.

(Expressed in thousands of United States dollars, except per share figures) (unaudited)

*Foreign currency risk and sensitivity*

The non-US dollar functional currency operations of the Company's foreign operations are primarily Canadian dollars, Euros, Chinese renminbi, Brazilian real and Japanese yen. Generally, purchases and borrowings are denominated in the functional currencies of the underlying operations of the Company.

The Company also manages its foreign currency risk by using foreign currency derivatives to cover forecasted purchase transactions that are expected to occur. When a foreign currency derivative is entered into for this purpose, the Company negotiates the terms of the foreign currency derivative to closely match the maturity dates of the hedged exposure.

The following table demonstrates the sensitivity to a 5% strengthening of the following currencies in which the Company conducts significant business against the functional currency of the Company. This sensitivity analysis excludes any impact of hedge accounting.

| | For the three months ended December 31, | | For the six months ended December 31, | |
|---|---|---|---|---|
| | **2018** | **2017** | **2018** | **2017** |
| **Impact on pre-tax income gain (loss):** | | | | |
| Canadian dollar | **$ 1,515** | $ 43 | **$ 1,920** | $ 347 |
| Mexican peso | **213** | (404) | **471** | (124) |

A weakening would have had the equal but opposite effect, on the basis that all other variables remain constant. The Company's exposure to foreign currency changes for all other currencies is not material.

*Commodity price risk and sensitivity*

The Company's Board of Directors has developed and enacted a risk management strategy for commodity price risk and its mitigation. The Company's operations require the ongoing purchase and manufacture of resin and are affected by the price volatility of resin and its inputs.

A 5% increase in the price of resin (all other variables held constant) would have a negative impact on pre-tax earnings for the three months ended December 31, 2018 of $2,029 (2017: $2,168), and $4,086 (2017: $4,336) for the six months ended December 31, 2018, and vice versa.

*Credit risk*

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Company is exposed to credit risk from its operating activities (primarily trade receivables), from its deposits with banks and financial institutions and derivative financial instruments.

*Trade receivables*

Customer credit risk is subject to the Company's established policies, procedures and controls relating to customer credit risk management. Credit quality of a customer is assessed based on an extensive credit rating scorecard, and individual credit limits are defined in accordance with this assessment. Outstanding customer receivables are regularly monitored for collectability.

The aging analysis of trade receivables, based on invoice due date, is as follows:

| | Total | Current and <30 days | 30–60 days | 61–90 days | >90 days |
|---|---|---|---|---|---|
| **As at December 31, 2018** | **$ 74,510** | **$ 73,550** | **$ 566** | **$ 299** | **$ 95** |
| As at June 30, 2018 | 120,786 | 119,265 | 1,155 | 71 | 295 |

An impairment analysis is performed at each reporting date on an individual basis for major customers. In addition, a large number of minor receivables are grouped into homogeneous groups and assessed for impairment collectively. The calculation is based on actual incurred historical data. The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets disclosed in note 15.1. The Company does not hold collateral as security. The Company is exposed to concentration of risk with respect to trade receivables. As at December 31, 2018, the Company's three largest customers accounted for 52.4%, 7.7% and 7.4%, respectively, of all receivables owing (June 30, 2018: 51.2%, 6.7% and 6.3%, respectively).

(Expressed in thousands of United States dollars, except per share figures) (unaudited)

*Deposits with banks and financial institutions*

Credit risk from balances with banks and financial institutions is managed in accordance with the Company's policy. Investments of surplus funds are made only with approved counterparties and within credit limits assigned to each counterparty. Counterparty credit limits are reviewed by the Company's Board of Directors on an annual basis, and may be updated throughout the year subject to approval of the Company's Finance Committee. The limits are set to minimize the concentration of risks and therefore mitigate financial loss through potential counterparty's failure to make payments. Cash and cash equivalents and derivative financial instruments are primarily held with large financial institutions with investment-grade credit ratings. The Company's maximum exposure to credit risk for deposits with banks and financial institutions and derivative financial instruments is their carrying amounts. The Company does not hold collateral as security.

*Liquidity risk*

The Company monitors its risk of a shortage of funds by maintaining a balance between continuity of funding and flexibility through the use of its revolving credit facilities. The Company manages the liquidity risk of forecasted cash flows from operations by ensuring that there are cash resources available to meet these needs.

*Concentration risk*

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographical region, or have economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Company's performance to developments affecting a particular industry.

In order to avoid excessive concentrations of risk, the Company's policies and procedures include specific guidelines to focus on the maintenance of a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

*Master netting and similar agreements*

The Company enters into derivative transactions under International Swap and Derivatives Association ("ISDA") master netting agreements. In general, under such agreements, the amounts owed by each counterparty on a single day in respect of all transactions outstanding in the same currency are aggregated into a single net amount that is payable by one party to the other. In certain circumstances – e.g. when a credit event such as a default occurs – all outstanding transactions under the agreement are terminated, the termination value is assessed and only a single net amount is payable in settlement of all transactions.

The ISDA agreements do not meet the criteria for offsetting in the interim condensed consolidated statements of financial position. This is because the Company does not have any currently legally enforceable right to offset recognized amounts, because the right to offset is enforceable only on the occurrence of future events such as a default or other credit events.

The carrying amounts of recognized financial instruments that are subject to the above agreements have been measured in the interim condensed consolidated statements of financial position at fair value, as follows:

| As at December 31, 2018 | Current assets | Non-current assets | Current liabilities | Long-term liabilities |
|---|---|---|---|---|
| Interest-rate swaps – USD LIBOR | $ 1,908 | $ — | $ — | $ — |
| Foreign exchange forward contracts and collars – Mexican Peso | 1,479 | 1,604 | 259 | 2,900 |
| Foreign exchange forward contracts – Canadian dollar | — | — | 4,711 | 9,804 |

| As at June 30, 2018 | Current assets | Non-current assets | Current liabilities | Long-term liabilities |
|---|---|---|---|---|
| Interest-rate swaps – USD LIBOR | $ 2,369 | $ 711 | $ — | $ — |
| Foreign exchange forward contracts and collars – Mexican Peso | 1,124 | 1,919 | 144 | 346 |
| Foreign exchange forward contracts – Canadian dollar | 148 | 876 | 1,058 | 1,809 |