WINPAK

Management's Discussion and Analysis (presented in US dollars)

Forward-looking statements: Certain statements made in the following Management's Discussion and Analysis contain forward-looking statements including, but not limited to, statements concerning possible or assumed future results of operations of the Company. Forward-looking statements represent the Company's intentions, plans, expectations and beliefs, and are not guarantees of future performance. Such forward-looking statements represent Winpak's current views based on information as at the date of this report. They involve risks, uncertainties and assumptions and the Company's actual results could differ, which in some cases may be material, from those anticipated in these forward-looking statements. Factors that could cause results to differ from those expected include, but are not limited to: the terms, availability and costs of acquiring raw materials and the ability to pass on price increases to customers; ability to negotiate contracts with new customers or renew existing customer contracts with less favorable terms; timely response to changes in customer product needs and market acceptance of our products; the potential loss of business or increased costs due to customer or vendor consolidation; competitive pressures, including new product development; industry capacity, and changes in competitors' pricing; ability to maintain or increase productivity levels; ability to contain or reduce costs; foreign currency exchange rate fluctuations; changes in governmental regulations, including environmental, health and safety; changes in Canadian and foreign income tax rates, income tax laws and regulations. Unless otherwise required by applicable securities law, Winpak disclaims any intention or obligation to publicly update or revise this information, whether as a result of new information, future events or otherwise. The Company cautions investors not to place undue reliance upon forward-looking statements.

Financial Performance

Net income attributable to equity holders of the Company for the third quarter of 2019 of $28.6 million or 44 cents in earnings per share (EPS) surpassed the comparable 2018 quarter by $0.7 million or 1 cent per share. The improvement in gross profit margins contributed 1.0 cent to EPS. Additionally, net finance income augmented EPS by 1.0 cent. Lower sales volumes and foreign exchange had the opposite effect, each decreasing EPS by 0.5 cents.

For the nine months ended September 29, 2019, net income attributable to equity holders of the Company ascended to $88.1 million or $1.36 per share, exceeding the 2018 corresponding result of $82.2 million or $1.27 per share by 7.1 percent. Higher gross profit margins in 2019 were the main factor, advancing EPS by 7.0 cents while net finance income and foreign exchange added a further 3.5 cents and 2.0 cents, respectively. Conversely, higher operating expenses lowered EPS by 2.5 cents and the contraction in sales volumes subtracted 1.0 cent from EPS.

Operating Segments and Product Groups

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

The rigid packaging and flexible lidding segment includes the rigid containers and lidding product groups. Rigid containers 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, industrial and healthcare.

The flexible packaging segment includes the modified atmosphere packaging, specialty films and biaxially oriented nylon product groups. Modified atmosphere packaging extends the shelf life of perishable foods, while at the same time maintains or improves the quality of the product. The packaging is used for a wide range of markets and applications, including fresh and processed meats, poultry, cheese, medical device packaging, high performance pouch applications and high-barrier films for converting applications. Specialty films 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.

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.

Revenue

Revenue in the third quarter of 2019 was $212.7 million, $7.9 million or 3.6 percent less than the third quarter of 2018. Volumes, in total, were down marginally from the prior year comparable quarter by 1.0 percent. Volumes within the rigid containers and flexible lidding operating segment receded by 5 percent in the quarter. A significant portion of the reduction in volumes took place within the rigid containers product group due to the loss of retort tray business and lower specialty beverage shipments. Conversely, the lidding product group benefitted from gains in specialty beverage die-cut lidding. The flexible packaging operating segment experienced volume growth of 2 percent in the quarter. For the modified atmosphere packaging product group, modest volume growth reflected expansion within the Mexican market. The packaging machinery operating segment had a strong quarter, exceeding the 2018 third quarter by 20 percent. Selling price and mix changes unfavorably influenced third quarter revenue by 2.5 percent as indexed customer selling prices followed the decrease in raw material costs that has taken place in 2019. Foreign exchange had a nominal impact on revenue in relation to the corresponding prior year quarter.

For the first nine months of 2019, revenue decreased by 1.7 percent to $656.4 million from $667.5 million in the corresponding prior year period. Volumes were virtually unchanged, declining by 0.5 percent. The rigid containers and flexible lidding operating segment realized a 6 percent contraction in volumes. The reduction in retort tray and specialty beverage container shipments led to a decline in volumes for the rigid container product group. In contrast, specialty beverage lidding was the main factor behind the positive performance for the lidding product group. The flexible packaging operating segment achieved a 4 percent advancement in volumes. Biaxially oriented nylon volumes outpaced the prior year by 14 percent due to inroads made at key accounts. Volumes within the modified atmosphere packaging product group advanced by 5 percent, reflecting gains at major North American protein and dairy producers. For the packaging machinery operating segment, growth was nearly 10 percent. Compared to 2018, selling price and mix changes had a negative effect on revenue of 0.7 percent. The slight depreciation of the Canadian dollar in comparison to its US counterpart had a minor negative impact on revenue.

Gross Profit Margins

Gross profit margins expanded in the current quarter to 31.5 percent of revenue from the 30.3 percent of revenue recorded in the third quarter of 2018. The customer selling price indexing mechanisms in place, which represent 70 percent of the Company's revenue, continued to have a favorable impact on margins as the related adjustments were eclipsed by the corresponding fall in raw material costs compared to those incurred a year earlier. In addition, the Company benefitted from continued operational improvements in reducing production waste and instituting lower cost raw material substitutions.

For the first three quarters of 2019, gross profit margins of 31.6 percent of revenue climbed by 1.3 percentage points from the 2018 year-to-date level of 30.3 percent. This caused an increase in EPS of 7.0 cents. The significant decline in raw material costs has resulted in a widening gap between selling prices and raw material costs and was the main factor influencing the superior margins. This was complemented by the significant progress that has been made in curtailing the expenses relating to production waste and inventory obsolescence.

During the third quarter of 2019, the weighted indexed purchased cost of Winpak's eight primary raw materials experienced a slight decrease compared to the second quarter of 2019, falling by 2.5 percent. Over the past twelve months, the decrease in the index was more significant at 14.0 percent. The decline in the raw material index was mainly due to the lower costs for polyethylene and polypropylene resins.

Expenses and Other

Operating expenses, exclusive of foreign exchange, in the third quarter of 2019 decreased at a similar rate relative to the decline in sales volumes, thereby having a negligible impact on EPS. Foreign exchange lowered EPS by 0.5 cents in the quarter due to the negative translation differences on the revaluation of Canadian dollar monetary assets and liabilities. The magnitude of cash and cash equivalents increased during 2019 and as a result, net finance income supplemented EPS by 1.0 cent for the quarter.

On a year-to-date basis, operating expenses, adjusted for foreign exchange, grew at a rate of 1.9 percent in contrast to the drop in sales volumes, resulting in a decline in EPS of 2.5 cents. During the current year, additional one-time personnel costs were incurred for a group of employees due to the closure and relocation of an administration office. Conversely, foreign exchange had a favorable impact of 2.0 cents on EPS due to the benefit of converting the Company's net Canadian dollar expenses into US funds at a lower average exchange rate. Additionally, net finance income elevated EPS by 3.5 cents, stemming from higher interest rates and the heightened level of cash and cash equivalents on hand.

Capital Resources, Cash Flow and Liquidity

The Company's cash and cash equivalents balance ended the third quarter of 2019 at $415.2 million, an increase of $19.7 million from the end of the previous quarter. Winpak continued to generate robust cash flows from operating activities before changes in working capital of $48.3 million. Working capital consumed cash of $4.7 million. Trade and other receivables grew by $5.1 million due to the timing of receipts. Cash was utilized for plant and equipment additions of $14.9 million, income tax payments of $8.6 million, dividends of $1.5 million and other items totaling $0.3 million while net finance income generated $1.4 million.

For the first nine months of 2019, the cash and cash equivalents balance rose by $70.9 million from the start of the year. Cash flows generated from operating activities before changes in working capital were exceptional at $149.7 million. The net investment in working capital increased by $2.5 million. Other uses of cash included plant and equipment additions of $43.8 million, income tax payments of $29.5 million, dividend payments of $4.4 million and other items amounting to $2.6 million. Net finance income provided cash of $4.0 million.

Summary of Quarterly Results

	Thousands of US dollars, except per share amounts (US cents)							
	Q3 2019	Q2 2019	Q1 2019	Q4 2018	Q3 2018	Q2 2018	Q1 2018	Q4 2017*
Revenue	212,734	219,618	224,035	222,138	220,647	225,191	221,665	222,323
Net income attributable to equity holders of the Company	28,578	31,086	28,429	26,683	27,835	28,042	26,361	39,633
EPS	44	48	44	41	43	43	41	61

The Company has initially applied IFRS 16 "Leases" at December 31, 2018 and IFRS 15 "Revenue From Contracts With Customers" and IFRS 9 "Financial Instruments" at January 1, 2018. Under the transition methods chosen by the Company, comparative information has not been restated.

*Includes the one-time income tax recovery of 17 cents per share due to the revaluation of deferred tax asset and liability balances within the US operations as a result of US tax reform enacted in December 2017.

Subsequent Event

Effective October 1, 2019, the Company signed a definitive agreement and closed the acquisition with respect to all the business (net assets and building) of privately owned Cheringal Associates, Inc. and Norwood Printing, Inc. collectively ("Control Group") located in Norwood, New Jersey. The purchase price of US $42.2 million was paid from cash resources on hand. Control Group is a market leader in delivering specialized printed packaging solutions to the pharmaceutical, healthcare, nutraceutical, cosmetic and personal care markets.

Looking Forward

Business Outlook

The Company is anticipating revenue and earnings results in the fourth quarter to be comparable to that of the other quarters of the year. Year-to-date, sales volumes and selling price and mix changes have been slightly negative; similar sales volume levels within the Company's operating segments are expected in the last quarter of 2019. Winpak remains in pursuit of new revenue growth opportunities and has secured new business which will provide the impetus for expanding sales volumes in the first quarter of 2020. The Company continues to realize lower operational costs from reducing production waste and implementing more economical raw material formulations, both of which will remain a key focal point. The acquisition of Control Group will provide a positive contribution to revenue and earnings in the fourth quarter and onwards. During the third quarter, the Canadian dollar strengthened in relation to the US dollar, creating some headwinds on earnings in the last quarter of the year. Raw material costs for the Company's core resins have declined in 2019 mainly due to lower polyethylene and polypropylene pricing. In the fourth quarter, gross profit margins are expected to contract marginally from lower selling prices as 70 percent of the Company's revenue is indexed to the price of raw materials albeit with a three to four-month time lag. For the final quarter of 2019, resin costs are forecasted to remain relatively stable with negligible movement on certain resins.

Capital expenditures in the range of $60 million are projected for 2019. A new extrusion line is expected to commence production in the first quarter of 2020 at the Senoia, Georgia specialty films location. In addition, capacity from a polypropylene thermoforming line is scheduled to be commercial in the second quarter of next year at the Sauk Village, Illinois rigid container facility. The building expansion and new state-of-the-art biaxially oriented polyamide (BOPA) line in Winnipeg, Manitoba continues to proceed with an expected start-up by the end of 2020. To deliver organic growth opportunities, Winpak will continue to focus on capital expenditures that augment its technical capabilities in material science developments and new production technologies and processes enabling the Company to expand its offering of recycle-ready products to customers in the North American plastic packaging market. With Winpak's strong financial position, the Company will continue to evaluate acquisition prospects that strategically fit and align with its core competencies in sophisticated packaging for food, beverage and health care applications providing long-term shareholder value.

Accounting Changes - Accounting Standards Implemented in 2019

a) Uncertainty over Income Tax Treatments

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

b) Employee Benefit Plan Amendment, Curtailment or Settlement

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

c) Leases

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

As a result of the adoption of IFRS 16, the Company's accounting policies have been updated. See note 4 to the unaudited interim condensed consolidated financial statements for the accounting policy changes, the consequential financial impact as well as the new disclosure requirements.

The Company has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17. On initial application, the Company has elected to record right-of-use assets based on the corresponding lease liability. Right-of-use assets and lease liabilities of $568 were recorded as of December 31, 2018, with no net impact on retained earnings. When measuring lease liabilities, the Company discounted lease payments using its incremental borrowing rate at December 31, 2018. The weighted-average rate applied was 4.5%. For leases with a lease term ending within 12 months of the date of initial application, the Company has elected to apply the practical expedient to account for them as short-term leases.

Controls and Procedures

Disclosure Controls

Management is responsible for establishing and maintaining disclosure controls and procedures in order to provide reasonable assurance that material information relating to the Company is made known to them in a timely manner and that information required to be disclosed is reported within time periods prescribed by applicable securities legislation. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives. Based on management's evaluation of the design of the Company's disclosure controls and procedures, the Company's Chief Executive Officer and Chief Financial Officer have concluded that these controls and procedures are designed as of September 29, 2019 to provide reasonable assurance that the information being disclosed is recorded, summarized and reported as required.

Internal Controls Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. Internal control systems, no matter how well designed, have inherent limitations and therefore can only provide reasonable assurance as to the effectiveness of internal controls over financial reporting, including the possibility of human error and the circumvention or overriding of the controls and procedures. Management used the Internal Control – Integrated Framework published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO 2013) as the control framework in designing its internal controls over financial reporting. Based on management's design of the Company's internal controls over financial reporting, the Company's Chief Executive Officer and Chief Financial Officer have concluded that these controls and procedures are designed as of September 29, 2019 to provide reasonable assurance that the financial information being reported is materially accurate. During the third quarter ended September 29, 2019, there have been no changes to the design of the Company's internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect, its internal controls over financial reporting.