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; 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 second quarter of 2019 of $31.1 million or 48 cents in earnings per share (EPS) compared to $28.0 million or 43 cents per share in the corresponding quarter in 2018, an increase of 10.9 percent. The expansion in gross profit margins contributed 2.5 cents to EPS while foreign exchange elevated EPS by 2.0 cents. Furthermore, net finance income and lower income taxes raised EPS by 1.0 cent and 0.5 cents respectively. Conversely, higher operating expenses reduced EPS by 1.0 cent.

For the six months ended June 30, 2019, net income attributable to equity holders of the Company amounted to $59.5 million or 92 cents per share which surpassed the 2018 first half result of $54.4 million or 84 cents per share by 9.4 percent. Enhanced gross profit margins propelled EPS forward by 6.0 cents while foreign exchange and net finance income each augmented EPS by 2.5 cents. Higher operating expenses and a greater proportion of earnings attributable to non-controlling interests had the opposite effect by decreasing EPS by 2.5 cents and 0.5 cents accordingly.

Operating Segments and Product Groups

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

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

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

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

Revenue

Revenue in the second quarter of 2019 reached $219.6 million versus $225.2 million in the same quarter of 2018, a decrease of 2.5 percent. Volumes contracted by 1.0 percent. Within the rigid packaging and flexible lidding operating segment, volumes receded by 4 percent in the quarter. The lidding product group benefitted from gains in rollstock applications. However, a modest volume reduction within the rigid containers product group was experienced due to the loss of retort tray business and timing of customer orders. The flexible packaging operating segment achieved volume growth of 2 percent in the quarter. The modified atmosphere packaging product group secured additional processed meat business. Following the exceptional results of the first quarter, biaxially oriented nylon volumes were solid again in the second quarter. Competitive pressures with respect to less sophisticated non-barrier films, in combination with the timing of orders, caused specialty films volumes to retreat. For the packaging machinery operating segment, sales were respectable, progressing by 6 percent. Selling price and mix changes had a negative impact of 1.1 percent on second quarter revenues while foreign exchange lowered revenues by a further 0.4 percent.

For the first half of 2019, revenue fell by $3.2 million to $443.7 million from $446.9 million recorded in the first six months of 2018. Volumes were essentially unchanged, declining by less than 0.5 percent. The rigid packaging and flexible lidding operating segment recorded a decline in volumes of 6 percent. For the lidding product group, healthy first half volumes were driven by inroads made with rollstock applications. A reduction in retort and specialty beverage container volumes contributed to a contraction in volumes for the rigid containers product group. The flexible packaging operating segment attained volume growth of 5 percent. Biaxially oriented nylon volumes were robust, reflecting the organic growth at key accounts. Modified atmosphere packaging volumes advanced by over 3 percent, mostly with protein customers. Within the packaging machinery operating segment, growth was 6 percent. Foreign exchange was responsible for a decrease in revenues of 0.5 percent compared to 2018. Selling prices and changes in product mix had a limited impact on revenue in relation to the corresponding prior year period.

Gross Profit Margins

Gross profit margins for the second quarter of 2019 rose to 32.4 percent of revenue versus 30.9 percent of revenue in the comparable 2018 quarter, an improvement of 1.5 percentage points. Raw material costs fell to a greater extent than the corresponding selling price adjustments. The inherent timing delay in passing along price modifications to customers on formal price indexing programs contributed to this gross profit margin enhancement. In addition, the Company's sustained focus on reducing production waste and optimizing the utilization of its manufacturing workforce generated positive results.

For the first six months of 2019, gross profit margins of 31.6 percent of revenue exceeded the 2018 year-to-date level of 30.3 percent by 1.3 percentage points. This translated into an increase in EPS of 6.0 cents. Lower raw materials costs was the greatest contributor as the related selling price adjustments put forth to customers on formal price indexing arrangements did not become effective until the latter part of the second quarter. This was augmented by cost savings achievements made in new material science, material waste and labor cost curtailment.

The raw material purchase price index declined by 2.1 percent compared to the first quarter of 2019. However, in the last 12 months, the decrease in the index was more pronounced at 10.8 percent. During the second quarter, polyethylene and polypropylene resin prices declined while all other major raw materials were relatively unchanged.

Expenses and Other

Operating expenses in the current quarter, exclusive of foreign exchange impacts, advanced by 2.6 percent relative to the corresponding slight decrease in sales volumes, thereby having a negative 1.0 cent impact on EPS. Foreign exchange had a favorable effect on EPS of 2.0 cents as the weaker Canadian dollar had a positive influence on earnings as expenses exceeded revenues in that currency. Furthermore, translation differences, which arise when Canadian dollar monetary assets and liabilities are translated at rates that change over time, were positive. Higher rates of interest were obtained on cash and cash equivalents, uplifting net finance income and raising EPS by 1.0 cent. Additionally, the effective income tax rate declined in the current quarter, adding 0.5 cents to EPS.

On a year-to-date basis, operating expenses, adjusted for foreign exchange, increased at a rate of 3.5 percent in contrast to the small contraction in sales volumes, resulting in a reduction in EPS of 2.5 cents. During the first half of 2019, one-time personnel costs were incurred for a group of employees due to the closure and relocation of an administration office. In addition, higher research and technical expenses reflected key new product initiatives that were undertaken. Foreign exchange had a positive influence on EPS of 2.5 cents primarily due to the conversion of the Company's net Canadian dollar expenses into US funds at a lower average rate. Net finance income also elevated EPS by 2.5 cents and was the outcome of advancements in both the level of cash and cash equivalents on hand and the rate of interest earned thereon. The magnitude of income attributable to non-controlling interests subtracted 0.5 cents from EPS.

Capital Resources, Cash Flow and Liquidity

The Company's cash and cash equivalents balance ended the second quarter of 2019 at $395.4 million, an increase of $32.8 million from the end of the prior quarter. Winpak generated strong cash flows from operating activities before changes in working capital of $52.5 million. Working capital provided $4.8 million in cash. Trade payables and other liabilities advanced by $4.0 million, reflecting the magnitude of raw material purchases and the timing of supplier payments. Trade and other receivables declined by $3.5 million due to the quantity of extended term accounts receivable that were sold without recourse to financial institutions in exchange for cash. Conversely, inventory levels climbed by $2.9 million as a result of the planned build-up of finished goods inventories in advance of equipment maintenance activities scheduled for the third quarter. Cash was used for income tax payments of $12.7 million, plant and equipment additions of $11.5 million, dividends of $1.5 million and other items totaling $0.1 million while net finance income provided cash of $1.3 million.

For the first half of 2019, the cash and cash equivalents balance advanced by $51.1 million as a result of the significant cash flow provided by operating activities before changes in working capital of $101.4 million. Working capital generated $2.2 million in cash. Other cash flows included $28.9 million in plant and equipment additions, income tax payments of $20.9 million, dividend payments of $2.9 million, employee defined benefit plan contributions of $2.1 million and other outflows amounting to $0.3 million. Net finance income had a positive impact of $2.6 million.

Summary of Quarterly Results

Thousands of US dollars, except per share amounts (US cents)

	Q2 2019	Q1 2019	Q4 2018	Q3 2018	Q2 2018	Q1 2018	Q4 2017*	Q3 2017
Revenue	219,618	224,035	222,138	220,647	225,191	221,665	222,323	218,348
Net income attributable to equity holders of the Company	31,086	28,429	26,683	27,835	28,042	26,361	39,633	25,368
EPS	48	44	41	43	43	41	61	39

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.

Looking Forward

Business Outlook

The Company remains optimistic on earnings performance for the balance of 2019. Enhanced gross profit margins in the second quarter were a result of the continued decline in certain raw material resin costs and notable productivity gains across the manufacturing operations. Sales volumes were essentially flat in the first six months of the year and expectations for the second half are for improved volumes albeit with similar variability amongst the Company’s product groups. Winpak continues to develop new revenue prospects with existing and new customers and the timing for commercialization of these opportunities remains uncertain as customers’ protocols control the process. Raw material costs for the Company’s main resins experienced slight declines in the second quarter due to high supplier inventory levels and new capacity. Since 70 percent of the Company’s revenues are indexed to the price of raw materials, with a 90 to 120-day time lag, selling prices will be moving downwards in the third quarter. Current market forecasts are for resin costs in the second half of 2019 to remain relatively stable except for polyethylene which may see further easing. During the second quarter, the Canadian dollar strengthened in relation to the US dollar, which will more than likely have a negative impact on earnings for the last six months of 2019.

Capital spending is expected to accelerate in the second half of 2019 and finish in the $60 - $70 million range. During the second quarter, new extrusion capacity was added at the rigid container facility in Sauk Village, Illinois. The Mexican facility became fully operational, providing new capabilities in printing technology for flexible packaging products. The building expansion and new state-of-the art biaxially oriented polyamide (BOPA) line in Winnipeg, Manitoba is moving forward with an expected commercial start-up in the latter part of 2020. Winpak continues to invest in organic revenue growth opportunities with new processes, technologies and material sciences to enhance its product portfolio including new recycle-ready offerings which are becoming an important focal point in the North American plastic packaging market. The Company continues to evaluate acquisition candidates that align strategically with Winpak’s fundamental competencies in sophisticated packaging for food, beverage and health care applications all being focused on adding long-term shareholder returns.

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 notes 3 and 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 June 30, 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 June 30, 2019 to provide reasonable assurance that the financial information being reported is materially accurate. During the second quarter ended June 30, 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.