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. In addition, factors arising as a result of the Coronavirus (COVID-19) global pandemic that could cause results to differ from those expected include, but are not limited to: potential government actions, changes in consumer behaviors and demand, changes in customer requirements, disruptions of the Company's suppliers and supply chain, availability of personnel and uncertainty about the extent and duration of the pandemic. 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 2021 of $28.5 million or 44 cents in earnings per share (EPS) decreased by 2.4 percent from the $29.2 million or 45 cents per share recorded in the corresponding quarter in 2020. The advancement in sales volumes elevated EPS by 4.0 cents, of which 0.5 cents is estimated to be attributed to COVID-19. The decline in gross profit margins were a key factor and negatively impacted EPS by 5.5 cents. Furthermore, higher operating expenses and a reduction in net finance income subtracted 1.0 cent and 0.5 cents, respectively from EPS. Conversely, lower income taxes raised EPS by 2.0 cents.

For the six months ended June 27, 2021, net income attributable to equity holders of the Company amounted to $53.0 million or 82 cents per share, an increase of 1.2 percent compared to the 2020 first half result of $52.4 million or 81 cents per share. Stronger sales volumes benefitted EPS by 6.5 cents. It is estimated that COVID-19 accounted for 0.5 cents. Also influential were lower gross profit margins, which had a negative effect on EPS of 8.0 cents. The decline in net finance income further decreased EPS by 2.0 cents. The level of net income attributable to non-controlling interests reduced EPS by 1.0 cent. Foreign exchange and income taxes had the opposite effect, enhancing EPS by 3.5 cents and 2.0 cents, respectively.

Operating Segments and Product Groups

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

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

The rigid packaging and flexible lidding segment includes the rigid containers, lidding and specialized printed packaging product groups. Rigid containers include portion control and single-serve containers, as well as plastic sheet, custom and retort trays, which are used for applications such as food, pet food, beverage, dairy, industrial and healthcare. Lidding products are available in die-cut, daisy chain and rollstock formats and are used for applications such as food, dairy, beverage, industrial and healthcare. Specialized printed packaging provides packaging solutions to the pharmaceutical, healthcare, nutraceutical, cosmetic and personal care markets.

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

The impact of COVID-19 has differed amongst the Company's product groups. Although still constrained by varying levels of public health orders that remain in place throughout North America, sales activity with respect to customers that focus on the food service and restaurant industries has rebounded considerably in the current quarter relative to the prior year. In addition, for customers that service the retail food industries, volumes were heightened due in part to the shift in consumer behavior towards greater at-home meal consumption. Compared to the prior year, it is estimated that COVID-19 raised second quarter sales volumes between 1.0 to 2.0 percent and elevated year-to-date sales volumes between 0.5 to 1.5 percent.

Revenue in the second quarter of 2021 was $244.0 million, $27.8 million or 12.8 percent greater than the second quarter of 2020. Volumes, in total, expanded by 9.7 percent. Within the rigid packaging and flexible lidding operating segment, volumes advanced by 12 percent in the quarter. The notable increase in rigid container volumes was partly attributed to the new custom pet food tray and dessert container product launches. Also relevant was the large expansion in condiment container activity. Modest growth in lidding product group volumes was due to advancements in retort pet food and condiment lidding. The flexible packaging operating segment realized healthy volume growth of 9 percent in the quarter. For the modified atmosphere packaging product group, strong volume growth reflected enhanced demand with respect to customers that service the retail meat and cheese markets. Biaxially oriented nylon volumes realized robust growth and were a consequence of the turnaround experienced by several major customers in food services and non-food retail that were acutely impacted by COVID-19 during the second quarter of 2020. For the packaging machinery operating segment, modest volume growth of 4 percent was achieved in comparison to the corresponding quarter of 2020. Selling price and mix changes had a positive effect on revenue of 1.7 percent. The strengthening of the Canadian dollar relative to the US dollar increased revenue by 1.4 percent.

For the first six months of 2021, revenue grew by 9.1 percent to $468.8 million from $429.8 million in the comparable prior year period. Volumes strengthened by 8.2 percent. Within the rigid packaging and flexible lidding operating segment, volume gains amounted to 10 percent. Rigid container volumes increased significantly due to a combination of customers' new product offerings and much higher condiment and snack food container shipments. Lidding product group volumes were relatively unchanged as improved retort pet food, snack food and condiment lidding activity was largely offset by lower creamer lidding and food rollstock volumes. The flexible packaging operating segment attained volume growth of 7 percent. In particular, modified atmosphere packaging volumes expanded due to the overall enhanced demand for retail meat and cheese products. This was complemented by the acceleration in biaxially oriented nylon volumes which benefitted from a surge in customer orders during the second quarter. Packaging machinery volumes progressed by 7 percent. Selling price and mix changes had virtually no effect on revenue. Customer price increases would have added 0.7 percent to revenue were it not for the elimination of the tariff surcharges on the imported aluminum foil, which nullified the effect. Foreign exchange had a minor 0.9 percent favorable impact on revenue in relation to the corresponding prior year period.

Gross Profit Margins

Gross profit margins fell to 28.6 percent of revenue in the second quarter of 2021, down from the 31.5 percent of revenue recorded in the same quarter of 2020. Raw material costs increased to a significantly greater extent than the related selling price adjustments, lessening gross profit margins by 4.2 percentage points. The normal delayed timing of selling price pass-through adjustments to customers on formal price indexing programs generated this large disparity. The surge in sales volumes led to gains in the utilization of equipment capacity, causing an elevation in gross profit margins of 1.3 percentage points.

For the first six months of 2021, gross profit margins of 28.9 percent of revenue narrowed by 1.9 percentage points from the 30.8 percent of revenue recorded in the 2020 year-to-date comparable period. Considerably higher raw material costs, paired with modest selling price increases, produced a decrease in EPS of 17 cents. The rate of sales volume growth outpaced the related expansion in fixed manufacturing overheads, tempering the negative impact of raw material costs, augmenting EPS by 9 cents.

During the second quarter of 2021, the raw material purchase price index experienced an increase of 17 percent compared to the initial quarter of 2021. Over the past 12 months, the rise in the index was even more significant at 46 percent. The pronounced increase in the index thus far in 2021 was caused by the heightened worldwide demand for the Company's primary resins and the constrained producer supply, which was amplified in the first quarter on account of the winter storm that occurred in the US Gulf Coast region in February, causing unplanned producer shutdowns. In the second quarter, nylon resin had the most substantial increase of 35 percent while polyethylene and polypropylene resins recorded advances of 21 percent and 13 percent, respectively.

Expenses and Other

Operating expenses in the second quarter of 2021, exclusive of foreign exchange, expanded at a slightly greater rate relative to the growth in sales volumes, thereby subtracting 1.0 cent from EPS. The new Wiicare healthcare sales initiative and upcoming injection molding market participation necessitated salesforce additions, coupled with higher freight and distribution costs, drove the elevated operating expenses. The drop in the effective income tax rate raised EPS by 2.0 cents. Lower net finance income subtracted 0.5 cents from EPS and was the outcome of the moderate decline in the rate of interest earned on the Company's cash and cash equivalent amounts.

On a year-to-date basis, operating expenses, adjusted for foreign exchange, increased at a rate of 8.7 percent in relation to the 8.2 percent progression in sales volumes, thereby having a negligible impact on EPS. Foreign exchange added 3.5 cents to EPS due to the large favorable translation differences recorded on the revaluation of monetary assets and liabilities denominated in Canadian dollars, which was in contrast to the sizeable unfavorable translation differences recorded in the first six months of 2020. The effective income tax rate was two percentage points lower, adding 2.0 cents to EPS. Conversely, the muted rate of interest applied to the cash and cash equivalent amounts produced a contraction in EPS of 2.0 cents. Additionally, a greater proportion of net income attributable to non-controlling interests dampened EPS by 1.0 cent.

Capital Resources, Cash Flow and Liquidity

The Company's cash and cash equivalents balance ended the second quarter of 2021 at $513.3 million, an increase of $17.0 million from the end of the prior quarter. Winpak generated strong cash flows from operating activities before changes in working capital of $49.6 million. The net investment in working capital increased by $7.0 million. Inventory amounts climbed by $13.4 million as a result of the substantial increase in resin prices and the seasonal accumulation of finished good inventories. Largely due to the higher inventory balances, trade payables and other liabilities advanced by $10.2 million. Trade and other receivables expanded by $3.9 million following the $19.2 million growth in revenue relative to the first quarter of 2021. Cash was used for plant and equipment additions of $18.5 million, income tax payments of $4.2 million, dividend payments of $1.6 million, employee defined benefit plan contributions of $0.9 million and other items totaling $0.4 million.

For the first half of 2021, the cash and cash equivalents balance improved by $17.9 million as a result of the significant cash flow provided by operating activities before changes in working capital of $94.9 million. Working capital consumed $33.0 million in cash. The increases in inventories, trade and other receivables and trade payables and other liabilities each coincided with the prominent rise in raw material costs and the growth in sales volumes. Cash outflows included: $27.5 million in plant and equipment additions, income tax payments of $11.5 million, dividend payments of $3.1 million, employee defined benefit plan contributions of $1.0 million and other items amounting to $0.9 million.

The Company paid a special dividend in Canadian dollars of $3.00 per common share on July 9, 2021. Sufficient cash resources are available to fund both capital expenditures for organic growth and potential acquisition opportunities.

Summary of Quarterly Results

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

	Q2 2021	Q1 2021	Q4 2020	Q3 2020	Q2 2020	Q1 2020	Q4 2019	Q3 2019
Revenue	243,969	224,806	212,091	210,605	216,201	213,596	217,456	212,734
Net income attributable to equity holders of the Company	28,520	24,495	27,256	26,684	29,226	23,155	26,679	28,578
EPS	44	38	42	41	45	36	41	44

Looking Forward

The Company continues to effectively manage through the ongoing impacts of the Coronavirus (COVID-19) pandemic as an essential supplier of packaging materials and machinery for our business partners. At this time, it appears that the pandemic will be present, in diminishing magnitude, for the balance of 2021 given the rising prevalence of infections from the highly contagious delta and other variants. As more individuals become fully vaccinated across North America, the pace of business reopenings should accelerate as evidenced in the United States. Winpak's facilities remain fully operational with a minimal number of COVID-19 cases. Current market sentiment is that the economy could progressively return to near pre-COVID-19 levels by the end of the year.

During the first half of the year, pandemic-related business trends persisted amongst Winpak's operating segments with muted volumes within the foodservice and hospitality markets and robust volume growth from retail related products. During the latter part of the second quarter, the Company's foodservice and hospitality product segments started to show a recovery in customer order levels which is expected to gain further traction in the third quarter. For the balance of 2021, the Company is optimistic on being able to sustain the appreciable sales volume gains that were realized across the operating segments in the first six months of the year. In the rigid container product group, new customer rollouts with initial product launches in retort pet food and single-serve desserts, in tandem with exceptional order levels from single-serve polypropylene condiments and snack food containers, will drive sizeable business gains. The flexible packaging segment is expected to continue to generate notable volume growth from retail protein and cheese products along with buoyant activity from the biaxially oriented nylon film non-food retail and hospitality markets. Supplementing the realized flexible packaging segment growth in the first six months of the year is new business onboarding from frozen food and spouted pouch products. The flexible lidding product group has gained additional retort pet food and snack food volumes and, in conjunction with the specialized printed packaging product group, will target growth opportunities with pharmaceutical customers arising from the recently launched strategic Wiicare healthcare partnership with Wipak, Winpak's European sister company. In addition, the Wiicare initiative is pursuing new medical customer prospects. The packaging machinery segment continues to generate a vibrant level of machine orders, keeping the operations busy for the remainder of 2021.

Raw material input costs for Winpak's three main resins increased dramatically during the first quarter of the year with the steep upward trend continuing during the second quarter with notable price increases being implemented by producers. The elevated resin costs are due to supply/demand imbalances from: slow producer production recovery from the extreme winter storm in mid-February across the US Gulf Coast, accelerated global demand for feedstocks, heightened market demand from pandemic reopenings and planned/unplanned plant outages at several producers. The supply shortfalls forced producers to declare force majeure and put customers on allocation. Winpak's procurement group has been working relentlessly over the past several months to source adequate supply of the affected resins. Resin supply is expected to return to normal capacity in the coming months and continue into the fourth quarter barring any further unforeseen events. These unique market circumstances have created unprecedented, inflated resin prices with gradual relief expected to commence in the second half of the third quarter and persist through the fourth quarter. The higher resin prices placed appreciable downward pressure on the Company's gross profit margins in the second quarter, however, these higher resin costs will generate substantial customer selling price increases in the upcoming quarters due to the Company's agreements with customers to pass-through these increased costs as 67 percent of Winpak's revenues are indexed albeit with a 90 to 120-day time lag. These selling price adjustments will assist in providing a positive uplift to Winpak's gross profit margins. In addition, during the second quarter, selling price increases were implemented with non-indexed customers with the potential for additional amounts being passed on in the third quarter. Pronounced escalations in freight and distribution expenses during the first six months of the year are expected to be prevalent for the remainder of 2021. Elevated pre-production costs will be incurred during the fourth quarter of this year with the start-up of both the new BOPA line and cast co-extrusion line in the two Winnipeg, Manitoba plants.

Capital spending accelerated during the second quarter with expenditures for 2021 forecast to be between $60 to $70 million. In the second quarter, the modified atmosphere packaging plant in Winnipeg, Manitoba completed its new conversion capabilities for reclosable lidding and spouted pouches and finished retrofitting a cast co-extrusion line, advancing Winpak's technical capabilities with the next generation of reusable/recyclable high-barrier thermoformable films. In addition, much needed capacity with a new cast co-extrusion line is scheduled for start-up early in the fourth quarter of this year. The new biaxially oriented nylon line installation in Winnipeg, Manitoba is advancing with commercialization planned during the fourth quarter of 2021. The rigid container facility in Sauk Village, Illinois is completing the installation of the building infrastructure and initial production equipment to provide the manufacturing capabilities to produce injection molded containers and in-mold labels with production scale-up to begin early in the fourth quarter of this year. Focused and dedicated resources will be allocated to capital spending that augments Winpak's technical expertise and capabilities in producing sustainable packaging products that are actively being pursued by customers. Acquisition opportunities have started to resurface in the market as the North American economy continues to reopen from the COVID-19 pandemic. Winpak will continue to evaluate potential acquisition opportunities that align strategically with the Company's fundamental strengths in sophisticated high-barrier packaging for food, medical and pharmaceutical applications that provide long-term shareholder value.

Accounting Changes - Accounting Standards Implemented in 2021

a) COVID-19-Related Rent Concessions

In May 2020, the IASB issued "COVID-19-Related Rent Concessions (Amendment to IFRS 16)", which amends IFRS 16 "Leases" to provide lessees with a practical expedient that relieves lessees from assessing whether a COVID-19-related rent concession is a lease modification. The amendment was implemented with retrospective application, effective December 28, 2020. On March 31, 2021, the IASB extended by 12 months the availability of the practical expedient issued in May 2020. The amendment had no impact on the Company's unaudited interim condensed consolidated financial statements.

Accounting Changes - Future Changes to Accounting Standards

a) Property, Plant and Equipment: Proceeds Before Intended Use

In May 2020, the International Accounting Standards Board (IASB) issued "Property, Plant and Equipment: Proceeds Before Intended Use (Amendments to IAS 16)", which prohibits deducting amounts received from selling items produced while preparing the asset for its intended use from the cost of property, plant and equipment. Instead, such sales proceeds and related costs will be recognized within the statement of income. The amendments are effective for annual reporting periods beginning on or after January 1, 2022 and are to be applied retrospectively. The Company does not expect the amendments to have a significant impact on the consolidated financial statements when they are adopted in 2022.

b) Onerous Contracts - Cost of Fulfilling a Contract

In May 2020, the IASB issued "Onerous Contracts - Cost of Fulfilling a Contract (Amendments to IAS 37)", which specifies which costs a company includes when assessing whether a contract will be loss-making. The amendments are effective for annual reporting periods beginning on or after January 1, 2022 and are to be applied prospectively. The Company does not expect the amendments to have a significant impact on the consolidated financial statements when they are adopted in 2022.

(c) Deferred Taxes Related to Assets and Liabilities Arising from a Single Transaction:
In May 2021, the IASB issued “Deferred Taxes Related to Assets and Liabilities Arising from a Single Transaction (Amendments to IAS 12)”, which introduces an exception to the initial recognition exemption for deferred tax on transactions such as leases and decommissioning obligations. Applying this exception, a company does not apply the initial recognition exemption for transactions that give rise to equal taxable and deductible temporary differences. The amendments are effective for annual reporting periods beginning on or after January 1, 2023 and are to be applied retrospectively. Early adoption is permitted. The Company does not expect the amendments to have a significant impact on the consolidated financial statements when they are adopted in 2023.

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 27, 2021 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 27, 2021 to provide reasonable assurance that the financial information being reported is materially accurate. During the second quarter ended June 27, 2021, 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.