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 2018 of $28.0 million or 43 cents in earnings per share (EPS) compared to $25.7 million or 40 cents per share in the corresponding quarter in 2017, an increase of 8.9 percent. The expansion in gross profit margins contributed 1.0 cent to EPS while modest organic volume growth enhanced EPS by 0.5 cents. As a result of the enactment of US tax reform in December 2017, the Company's effective income tax rate decreased significantly, increasing EPS by 2.0 cents. Furthermore, lower operating expenses and net finance income each raised EPS by 0.5 cents. Conversely, foreign exchange reduced EPS by 1.5 cents.

For the six months ended July 1, 2018, net income attributable to equity holders of the Company amounted to $54.4 million or 84 cents per share essentially matching the 2017 first half result of $54.3 million or 84 cents per share. Lower income taxes propelled EPS higher by 5.5 cents and reduced operating expenses added a further 1.0 cent. A smaller proportion of net income attributable to non-controlling interests and net finance income both added 0.5 cents to EPS. These gains were offset by a drop in gross profit margin, the negative impact of foreign exchange and the contraction in sales volumes which subtracted 3.5 cents, 3.0 cents and 1.0 cent respectively from EPS.

The fiscal year of the Company ends on the last Sunday of the calendar year and is usually 52 weeks in duration. However, the 2017 fiscal year consisted of 53 weeks, with the first quarter comprising 14 weeks, one more week than the current year. The additional week included in the 2017 first quarter was essentially the last week of the 2016 calendar year which contained several statutory holidays. Consequently, it is estimated that this additional week contributed 3.0 percent to 2017 first half sales volumes and net income results.

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 and 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 2018 reached $225.2 million versus $217.8 million in the same quarter of 2017, an increase of 3.4 percent. Volume expansion was modest at 1.6 percent. The rigid container and flexible lidding operating segment experienced positive volume growth of 2 percent in the quarter. Within the lidding product group, the improvement in specialty beverage lidding volumes was complemented by continued progress with respect to yogurt and dessert die-cut lidding as well as rollstock applications. A minor reduction in rigid container product group volumes was experienced as solid specialty beverage and condiment container shipments were more than offset by the loss of sheet business. The flexible packaging operating segment achieved volume growth of 1 percent in the quarter. The modified atmosphere packaging product group benefitted from securing additional healthcare packaging business. The packaging machinery operating segment's sales were robust, advancing by 12 percent. Selling price and mix changes had a favorable impact of 1.4 percent on second quarter revenues while the effect of foreign exchange on revenues was negligible.

For the first half of 2018, revenue rose by $0.8 million to $446.9 million from $446.1 million recorded in the first six months of 2017. After taking the additional week of revenues in the first quarter of 2017 into account, volumes grew by nearly 1 percent. The rigid container and flexible lidding operating segment realized a slight advancement in volumes. For the lidding product group, healthy first half volumes were driven by gains in specialty beverage lidding and rollstock. A reduction in sheet and applesauce container volumes contributed to a contraction in volumes for the rigid container product group. Volume growth was also restrained within the flexible packaging operating segment with headwinds provided by customer order patterns and demand levels. In comparison to a very strong first six months of 2017, volumes within the modified atmosphere packaging product group were virtually unchanged. Within the packaging machinery operating segment, growth exceeded 15 percent. Higher overall selling prices and change in product mix resulted in an increase in revenue of 1.1 percent compared to 2017. Foreign exchange had a minimal impact on revenue in relation to the corresponding prior year period.

Gross Profit Margins
Gross profit margins for the second quarter of 2018 fell only 0.3 percentage points to 30.9 percent of revenue from the 31.2 percent recorded in the same quarter of 2017 despite competitive selling price pressures in key product markets and the significant rise in raw material costs to those incurred a year earlier. As anticipated, some margin recovery was achieved through the indexed selling price mechanisms in place at customer accounts representing approximately 70 percent of the Company's revenues. In addition, substantial cost reductions were achieved by reducing production waste. Gross profit in dollar terms rose by 2.6 percent, resulting in a modest increase in EPS.

For the first six months of 2018, gross profit margins of 30.3 percent of revenue fell short of 2017 year-to-date levels of 31.6 percent by 1.3 percentage points. This translated into a decrease in earnings per share of 3.5 cents. The higher raw material costs and lower selling prices in certain product markets overshadowed the manufacturing improvements and selling price adjustments for customers on price-indexing programs, the majority of which didn't take effect until the second quarter.

During the second quarter of 2018, the weighted indexed purchased cost of Winpak's eight primary raw materials was relatively stable compared to the first quarter of 2018. Over the past twelve months, prices have been relatively unchanged and the index has increased by only 1.0 percent.

Expenses and Other
Operating expenses in the current quarter, exclusive of foreign exchange impacts, declined by 1.4 percent relative to the corresponding modest increase in sales volumes, thereby having a positive 0.5 cents impact on EPS. The settlement costs of the share-based incentive plan in the prior year was a contributing factor. Foreign exchange had an unfavorable effect on EPS of 1.5 cents. The stronger Canadian dollar had a negative impact on earnings as expenses exceeded revenues in that currency. Furthermore, the foreign exchange contracts that matured during the quarter generated foreign exchange losses. Effective January 1, 2018, the US federal statutory income tax rate decreased from 35.0 percent to 21.0 percent, accounting for the lower overall effective income tax rate, elevating EPS by 2.0 cents. The cash invested in money market accounts and short-term deposits was at more beneficial interest rates. Consequently, net finance income augmented EPS by 0.5 cents.

On a year-to-date basis, operating expenses, adjusted for foreign exchange, receded at a rate of 3.1 percent, outpacing the contraction in sales volumes, resulting in an addition to EPS of 1.0 cent. The significant reduction in share-based compensation expenses was partially offset by higher freight expenses. The negative influence of foreign exchange on EPS was 3.0 cents following the appreciation of the Canadian dollar in relation to its US counterpart. The much lower US federal statutory income tax rate boosted EPS by 5.5 cents. Lastly, net finance income and the magnitude of income attributable to non-controlling interests each supplemented EPS by 0.5 cents.

Summary of Quarterly Results

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

	Q2 2018	Q1 2018	Q4 2017*	Q3 2017	Q2 2017	Q1 2017	Q4 2016	Q3 2016
Revenue	225,191	221,665	222,323	218,348	217,752	228,351	215,550	204,699
Net income attributable to equity holders of the Company	28,042	26,361	39,633	25,368	25,745	28,552	28,578	24,036
EPS	43	41	61	39	40	44	44	37

The Company has initially applied 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.

Capital Resources, Cash Flow and Liquidity

The Company's cash and cash equivalents balance ended the second quarter of 2018 at $319.8 million, an increase of $15.9 million from the end of the prior quarter. Winpak generated strong cash flows from operating activities before changes in working capital of $49.9 million. Changes in working capital were virtually unchanged, decreasing by just $1.4 million. Inventory levels climbed by $7.9 million due to the timing of raw material purchases and the planned build-up of finished goods inventories in advance of the equipment maintenance activities scheduled for the third quarter. Similarly, trade payables and other liabilities advanced by $8.6 million, reflecting the magnitude of raw material purchases and the timing of supplier payments. Cash was used for property, plant and equipment additions of $20.6 million, income tax payments of $13.3 million and dividends of $1.5 million.

For the first half of 2018, the cash and cash equivalents balance advanced by $27.9 million to $319.8 million as a result of the significant cash flow provided by operating activities before changes in working capital of $96.4 million. Working capital consumed $9.1 million in cash. Trade and other receivables increased by $8.8 million, largely a function of the quantity of extended term accounts receivable that were sold without recourse to financial institutions in exchange for cash. The investment in inventories amounted to $9.3 million, but was effectively offset by the related $9.1 million increase in trade payables and other liabilities. Other cash flows included $33.0 million in property, plant and equipment additions, income tax payments of $21.6 million, dividend payments of $3.1 million, employee defined benefit plan contributions of $1.8 million, net of other inflows totaling $0.1 million.

Looking Forward

Business Outlook

The second quarter of 2018 provided positive advancements with respect to sales volume growth along with selling price and mix changes. The Company is focused on continuing to expand sales volume growth in the second half of 2018 with existing and new customers offering more sophisticated and/or new products. The North American packaging industry remains competitive from a selling price perspective and this will continue to apply pressure on gross profit margins. Winpak realized some notable results in lowering production waste and enhancing manufacturing performance in the first six months of 2018 and will strive to further elevate operational efficiencies in the second half of the year. In the second quarter, raw material costs for the Company's widely used resins remained relatively stable with some offsetting amounts on certain resins. The Company expects some further recovery of the resin price increases, incurred in the past 6 months, as approximately 70 percent of the Company's revenues are indexed to the price of raw materials, albeit with an approximate 90 to 120-day time lag. Current market forecasts are predicting some negligible pricing reductions, on select resins, in the second half of the year. During the second quarter, the Canadian dollar weakened in relation to the US dollar, which should have a positive impact on earnings for the balance of 2018. Recently, the US government levied a 10 percent tariff on aluminum products imported into the US. This tariff increased the cost of Winpak's flexible foil lidding products that are exported from Canada into the US. The Company has assessed the effects of this tariff on the cost of its products and has passed through these tariff amounts to its customers.

Capital expenditures in the range of $70 million are anticipated for 2018. Extrusion capacity was added, late in the second quarter, at the modified atmosphere packaging operations in Winnipeg, Manitoba. In addition, new thermoforming lines at the rigid container facility in Sauk Village, Illinois are planned to be operational in the first half of 2019. The new Mexican facility will accommodate increased production capacity and new capabilities for printing technology for flexible packaging products and is expected to be operational in the first quarter of 2019. The Company continues to generate strong cash flows from operations to support both organic growth from capital investments in new technologies and capabilities to enhance its product offerings and in tandem, will continue to appraise strategic acquisition opportunities that align with Winpak's core competencies in sophisticated food and healthcare packaging at an appropriate price and suitable fit.

NAFTA

The Company's operations encompass three product groups produced in ten manufacturing facilities located in North America. The majority of Winpak's products are sold to customers in the US followed by Canada and Mexico. Approximately 61 percent of production costs occur in Canada and the export sales from these manufacturing facilities into the US represents about 40 percent of the Company's total revenues. Under the current NAFTA agreement, all packaging materials move across the borders between Canada, the US and Mexico free of duties. The effect of any border tax adjustment due to potential amendments to NAFTA for imported cost of goods sold from foreign entities could have a significant financial impact to the Company. The magnitude of exposures to the Company regarding any amendments to NAFTA cannot be determined as insufficient information exists currently. The possible future impact of risks relating to NAFTA are anticipated to be mitigated by increased levels of production capabilities in the US manufacturing operations, if required.

Accounting Changes - Accounting Standards Implemented in 2018

a) Financial Instruments:

The Company has adopted IFRS 9 "Financial Instruments" with a date of initial application of January 1, 2018. IFRS 9 introduces new requirements for the classification and measurement of financial assets, amends the requirements related to hedge accounting, and introduces a forward-looking expected loss impairment model.

The standard contains three classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The classification of financial assets under IFRS 9 is based on the business model in which a financial asset is managed and its contractual cash flow characteristics. The standard eliminates the previous IAS 39 categories of held to maturity, loans and receivables and available for sale. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward in IFRS 9 and the adoption of IFRS 9 did not change the Company's accounting policies for financial liabilities. The classification changes for each class of the Company's financial assets and financial liabilities upon adoption at January 1, 2018 had no impact on the measurement of financial instruments.

The Company has adopted the new general hedge accounting model in IFRS 9. The adoption of IFRS 9 did not result in any changes in the eligibility of existing hedge relationships, the accounting for derivative financial instruments designated as effective hedging instruments or the line items in which they are included in the consolidated balance sheets or consolidated statements of income.

As a result of the adoption of IFRS 9, the Company's accounting policies for financial instruments have been updated (see note 12 to the condensed consolidated financial statements) and applied from January 1, 2018 and in accordance with the transitional provisions in IFRS 9, comparative figures have not been restated. The Company has adopted IFRS 9 retrospectively, other than the hedge accounting provisions of IFRS 9 that have been applied prospectively effective January 1, 2018, and accordingly the comparative figures do not reflect the requirements of IFRS 9. The adoption of IFRS 9 did not result in any transition adjustments being recognized as at January 1, 2018. There was no impact on the 2018 interim condensed consolidated financial statements.

b) Revenue From Contracts With Customers:

The Company has adopted IFRS 15 "Revenue From Contracts With Customers" with a date of initial application of January 1, 2018. IFRS 15 includes a single, five-step revenue recognition model that requires entities to recognize revenue when control of the promised goods or services is transferred to customers at an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. The standard also requires more informative, relevant disclosures. IFRS 15 supersedes IAS 11 "Construction Contracts" and IAS 18 "Revenue", as well as various IFRIC and SIC interpretations regarding revenue.

The Company has applied IFRS 15 using the cumulative effect method (without practical expedients) and therefore the comparative information has not been restated and continues to be reported under IAS 11 and IAS 18. The adoption of IFRS 15 did not result in any transition adjustments being recognized as at January 1, 2018.

As a result of the adoption of IFRS 15, the Company's accounting policies have been updated (see note 6 to the condensed consolidated financial statements). As of January 1, 2018, the Company has made changes with respect to the presentation of refund and contract liabilities on the condensed consolidated balance sheet. Under IFRS 15, the Company has presented its refund liabilities within 'Trade payables and other liabilities'. Previously, refund liabilities were presented within 'Trade and other receivables'. The Company continues to present the amounts with respect to the rights to recover products from customers with a right of return within 'Inventories'. The Company has presented its customer deposits within 'Contract liabilities' under IFRS 15. Previously, customer deposits were presented within 'Trade payables and other liabilities'. These changes in presentation consequently impacted the amounts reported on the Company's condensed consolidated statement of cash flows for the second quarter of 2018 and the year-to-date period ended July 1, 2018. IFRS 15 had no impact on the Company's condensed consolidated statements of income for the second quarter of 2018 and the year-to-date period ended July 1, 2018.

Accounting Changes - Future Changes to Accounting Standards

a) Leases:
IFRS 16 “Leases” was issued in January 2016 by the International Accounting Standards Board, providing a single model for leases. 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 will be recognized on the balance sheet. Certain exemptions will apply for short-term leases and leases for low-value assets. Lessors will continue to classify leases as operating and finance leases. IFRS 16 replaces IAS 17 “Leases” and the related interpretations. IFRS 16 is effective for annual and interim reporting periods beginning on or after January 1, 2019 and is to be applied retrospectively. Early adoption is permitted under certain conditions. The Company is currently assessing the impact this new standard will have on its consolidated financial statements. The new standard will be adopted by the Company in 2019.

b) 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 is effective for annual and interim reporting periods beginning on or after January 1, 2019 and is to be applied retrospectively. Early adoption is permitted. While the Company is currently assessing the impact of the Interpretation, management does not expect IFRIC 23 to have a significant impact on the Company’s consolidated financial statements when it is adopted in 2019.

c) 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 are effective for annual and interim reporting periods beginning on or after January 1, 2019 and are to be applied prospectively. Early adoption is permitted. While the Company is currently assessing the impact of the amended standard, management does not expect the amendments to have a significant impact on the Company’s consolidated financial statements when they are adopted in 2019.

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 July 1, 2018 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 July 1, 2018 to provide reasonable assurance that the financial information being reported is materially accurate. During the second quarter ended July 1, 2018, 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.