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 third quarter of 2018 of $27.8 million or 43 cents in earnings per share (EPS) surpassed the comparable 2017 quarter by $2.5 million or 4 cents per share, an advancement of 9.7 percent. The improvement in gross profit margins contributed 1.0 cent to EPS. Additionally, following the enactment of US tax reform in December 2017, the Company's effective income tax rate decreased significantly, enhancing EPS by 2.5 cents. Net finance income augmented EPS by 1.0 cent. Foreign exchange had the opposite effect largely due to the impact of foreign exchange forward contracts, decreasing EPS by 0.5 cents.

For the nine months ended September 30, 2018, net income attributable to equity holders of the Company ascended to $82.2 million or $1.27 per share, exceeding the 2017 corresponding result of $79.7 million or $1.23 per share by 3.2 percent. Lower US income taxes in 2018 was the main factor, advancing EPS by 8.0 cents while lower operating expenses and a smaller proportion of net income attributable to non-controlling interests each added a further 1.0 cent. The increase in net finance income elevated EPS by 1.5 cents. These positive factors were largely offset by the negative impact of foreign exchange, contraction in gross profit margins and lower sales volumes, which reduced EPS by 3.5 cents, 2.5 cents and 1.5 cents respectively.

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 2.0 percent to both 2017 year-to-date 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 third quarter of 2018 of $220.6 million exceeded the prior year level of $218.3 million by 1.1 percent. Volumes, in total, were down marginally from the prior year comparable quarter by 0.7 percent. Volumes within the rigid containers and flexible lidding operating segment receded by 3 percent in the quarter. The lidding product group benefitted from gains in yogurt and dessert die-cut lidding as well as rollstock applications. A slight reduction in volumes took place for the rigid containers product group as the loss of sheet business and the unfavorable timing of specialty beverage shipments was only somewhat offset by solid condiment container volumes. The flexible packaging operating segment experienced volume growth of 1 percent in the quarter. Within the modified atmosphere packaging product group, modest volume growth reflected new processed meat and healthcare packaging business. The packaging machinery operating segment had a strong quarter, exceeding the 2017 third quarter by 10 percent. Selling price and mix changes favorably influenced third quarter revenue by 2.1 percent as indexed selling prices followed the increase in raw material costs that have taken place over the past year. The weaker average value of the Canadian dollar in comparison to its US counterpart had a minor 0.3 percent negative effect on revenue versus the comparable prior year quarter.

For the first nine months of 2018, revenue increased by 0.5 percent to $667.5 million from $664.5 in the corresponding prior year period. After taking the additional week of revenues in the first quarter of 2017 into account, volumes were essentially unchanged. The rigid containers and flexible lidding operating segment realized a slight drop in volumes. For the lidding product group, specialty beverage lidding and rollstock were the catalysts behind the positive performance. On the contrary, the reduction in sheet, specialty beverage and dessert container shipments led to a contraction in volumes for the rigid container product group. The flexible packaging operating segment achieved a small advancement in volumes and was negatively impacted by customer order patterns and demand levels. Volumes within the modified atmosphere packaging product group were virtually unchanged in comparison to the robust growth recorded in the first three quarters of 2017. For the packaging machinery operating segment, growth surpassed 15 percent. Compared to 2017, selling price and mix changes had a positive effect on revenue of 1.4 percent. Foreign exchange had an insignificant impact on revenue in relation to the corresponding prior year period.

Gross Profit Margins

Gross profit margins in the current quarter of 30.3 percent of revenue were equivalent with the result recorded in the same quarter of 2017. The result was impressive given the competitive selling price pressures prevailing in key product markets. The indexing selling price mechanisms, in place at customer accounts representing approximately 70 percent of the Company's revenues, continued to have a favorable impact on margins as the related adjustments outpaced the corresponding rise in raw material costs compared to those incurred a year earlier. In addition, the Company benefitted from continued improvements in reducing production waste.

For the first three quarters of 2018, gross profit margins of 30.3 percent of revenue dropped by 0.9 percentage points from the 2017 year-to-date level of 31.2 percent. This caused a decrease in EPS of 2.5 cents. After implementing selling price adjustments for customers on price-indexing programs in both the second and third quarters of 2018, the impact of the higher raw material costs was limited. This was complemented by the significant progress that has been made in curtailing the expenses relating to production waste and inventory obsolescence. The muted growth in sale volumes has led to under-utilized capacity, causing a reduction in gross profit margins.

During the third quarter of 2018, the weighted indexed purchased cost of Winpak's eight primary raw materials experienced a slight increase compared to the second quarter of 2018, rising by 1.1 percent. Similarly, over the past twelve months, the index has increased by 3.3 percent.

Expenses and Other

Operating expenses, exclusive of foreign exchange, in the third quarter of 2018 decreased at a similar overall rate relative to the decline in sales volumes, thereby having a negligible impact on EPS. The maturation of foreign exchange forward contracts at less favorable rates compared to the third quarter of 2017 was only partially offset by the positive impact of the weaker Canadian dollar in the current quarter. Consequently, foreign exchange lowered EPS by 0.5 cents. 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, which contributed 2.5 cents to EPS. The cash invested in money market accounts and short-term deposits was at more advantageous interest rates in 2018. As a result, net finance income supplemented EPS by 1.0 cent.

On a year-to-date basis, operating expenses, adjusted for foreign exchange, declined at a rate of 2.3 percent, exceeding the contraction in sales volumes, resulting in incremental EPS of 1.0 cent. The substantial reduction in share-based compensation expenses was somewhat offset by higher freight and research and technical expenses. The much lower US federal statutory income tax rate propelled EPS higher by 8.0 cents. Adding to these positive effects, net finance income and a smaller proportion of net income attributable to non-controlling interests provided 1.5 cents and 1.0 cent to EPS respectively. On the other hand, foreign exchange had an unfavorable impact of 3.5 cents on EPS due to a combination of losses on conversion of the Company's net Canadian dollar expenses into US funds at a higher average rate as well as the maturation of foreign exchange forward contracts at less beneficial rates than the prior period.

Summary of Quarterly Results

	Q3 2018	Q2 2018	Q1 2018	Q4 2017*	Q3 2017	Q2 2017	Q1 2017	Q4 2016
	Thousands of US dollars, except per share amounts (US cents)							
Revenue	220,647	225,191	221,665	222,323	218,348	217,752	228,351	215,550
Net income attributable to equity holders of the Company	27,835	28,042	26,361	39,633	25,368	25,745	28,552	28,578
EPS	43	43	41	61	39	40	44	44

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 third quarter of 2018 at $323.5 million, a modest increase of $3.7 million from the end of the previous quarter. Winpak continued to generate robust cash flows from operating activities before changes in working capital of $47.5 million. Working capital consumed $16.0 million. Trade payables and other liabilities declined by $6.8 million due to payments made to customers with respect to variable consideration arrangements. In addition, trade and other receivables grew by $6.7 million due to the timing of receipts and certain customer payment terms that were extended earlier in 2018. Furthermore, inventories advanced by $4.8 million, reflecting the timing of raw material purchases. Cash was utilized for property, plant and equipment additions of $22.2 million, income tax payments of $4.7 million, dividends of $1.5 million and other items totaling $0.1 million while net finance income generated $0.7 million.

For the first nine months of 2018, the cash and cash equivalents balance rose by $31.6 million from the start of the year. Cash flows generated from operating activities before changes in working capital were exceptional at $143.9 million. The net investment in working capital amounted to $25.0 million. The timing of selling extended term accounts receivable without recourse to finance institutions in exchange for cash elevated trade and other receivables by $15.4 million. The tariffs implemented by the US government on aluminum products earlier in 2018 caused demand for aluminum to outpace supply with the Company's aluminum foil suppliers. To address the situation, alternate sources of supply were sourced and the level of inventory kept on hand was increased. This item, along with the typical seasonal build-up of finished goods inventories and the overall increase in raw material costs since the start of the year, caused inventories to advance by $14.1 million. Other uses of cash included property, plant and equipment additions of $55.2 million, income tax payments of $26.3 million, dividend payments of $4.5 million and other items amounting to $2.2 million. Net finance income provided cash of $0.9 million.

Looking Forward

Business Outlook

The third quarter of 2018 provided mixed results regarding sales volume growth amongst the Company's product groups with overall volumes remaining relatively flat. Positive selling price and mix changes were realized in the current quarter with the continued recovery of resin price increases, incurred in the last 12 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. Winpak is focused on expanding sales volumes in the final quarter of 2018 and heading into 2019, offering more sophisticated and/or new products. The packaging industry remains competitive from a selling price perspective, applying downward pressure on gross profit margins. The Company continued to generate positive results in reducing production waste and achieving productivity gains in both the quarter and first nine months of 2018. In the third quarter, raw material costs for the Company's widely used resins remained relatively stable with minor offsetting amounts on certain resins. Current market forecasts are predicting some variability, on select resins, in the upcoming six-month time period.

Capital expenditures of approximately $85 million are forecasted for 2018. Extrusion capacity was added, late in the second quarter, at the modified atmosphere packaging operations in Winnipeg, Manitoba. New extrusion capacity is planned to be operational in the first six months of 2019 at the rigid container facility in Sauk Village, Illinois. The Mexican plant, acquired earlier in 2018, will accommodate increased production capacity and new capabilities in printing technology for flexible packaging products and is expected to be fully operational in the second quarter of 2019. In addition, the building expansion and new biaxially oriented polyamide (BOPA) line capacity in Winnipeg, Manitoba is progressing with a planned commercial start-up in the second half of 2020. The Company continues to generate consistent cash flows from operations to support its organic growth opportunities and production capabilities with new state-of-the-art technologies to expand its product offerings while continuing to assess and evaluate strategic acquisition opportunities that align with Winpak's core competencies both from a suitable fit and purchase price perspective.

The recently announced trilateral trade agreement (pending final government approvals) between the United States, Mexico and Canada (USMCA) provides for plastic packaging materials to continue to move across the respective borders of the three countries free of duties.

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 third quarter of 2018 and the year-to-date period ended September 30, 2018. IFRS 15 had no impact on the Company's condensed consolidated statements of income for the third quarter of 2018 and the year-to-date period ended September 30, 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 September 30, 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 September 30, 2018 to provide reasonable assurance that the financial information being reported is materially accurate. During the third quarter ended September 30, 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.