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 fourth quarter of 2018 of $26.7 million or 41 cents in earnings per share (EPS) declined by 32.7 percent from the $39.6 million or 61 cents per share recorded in the corresponding quarter of 2017. However, the exceptional result in the prior year was greatly influenced by the United States tax reform enacted in December 2017, whereby the Company was required to recalculate the deferred tax asset and liability amounts pertaining to the temporary differences within its US subsidiaries. This resulted in a one-time income tax recovery of $11,090 or 17.0 cents per share. On a normalized basis, EPS fell by 3.0 cents. Elevated operating expenses lowered EPS by 4.5 cents. Additionally, the contraction in gross profit margins and foreign exchange each reduced EPS by 1.0 cent. The impact of the US tax reform was also positive in the current year as the Company's effective income tax rate decreased significantly, enhancing EPS by 2.5 cents. Net finance income supplemented EPS by 1.0 cent.

For the year ended December 30, 2018, net income attributable to equity holders of the Company of $108.9 million or $1.68 per share decreased from the prior year's net income of $119.3 million or $1.84 per share by 8.7 percent. Excluding the income tax recovery due to US tax reform recorded in 2017, EPS advanced by 1.0 cent. The income tax expense recorded in 2018 with respect to income earned in the United States was the main factor, boosting EPS by 10.0 cents while the increase in net finance income and a smaller proportion of net income attributable to non-controlling interests added a further 3.0 cents and 1.0 cent respectively. Conversely, the negative impact of foreign exchange, the contraction in gross profit margins and higher operating expenses caused EPS to decline by 4.5 cents, 3.5 cents and 3.0 cents respectively. The lower sales volumes in the current year dampened EPS by 2.0 cents.

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, 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 fourth quarter of 2018 of $222.1 million essentially matched the comparable 2017 period of $222.3 million. Volumes, in total, were down slightly from the fourth quarter of 2017 by 1 percent. Within the rigid containers and flexible lidding operating segment, volumes contracted by 2 percent in the quarter. The lidding product group experienced a temporary drop in volumes due to customer order patterns with respect to specialty beverage lidding. Furthermore, a reduction in sheet and dessert volumes contributed to weaker shipments for the rigid container group. The flexible packaging operating segment's volumes were similar to the prior year. Within the modified atmosphere packaging product group, volume growth was restrained in comparison to a very strong fourth quarter in 2017. The packaging machinery operating segment had a solid quarter, outpacing the 2017 fourth quarter by 5 percent. Selling price and mix changes had a favorable impact of 1 percent on fourth quarter revenues while the effect of foreign exchange on revenues was negligible.

For 2018, revenue reached an all-time high of $889.6 million, up by 0.3 percent from the $886.8 million recorded in the previous year. After taking the additional week of revenues in the first quarter of 2017 into account, volumes were virtually unchanged. The rigid containers and flexible lidding operating segment experienced a negligible drop in volumes. For the lidding product group, rollstock materials in combination with yogurt and dessert die-cut lidding were the main factors leading the positive performance. Conversely, sheet and dessert container shipments receded in the current year and led to an overall contraction in volumes for the rigid container product group. The flexible packaging operating segment realized a limited uptick in volumes. Within the modified atmosphere packaging product group, growth was challenging due to tempered demand levels at major US protein processors. For the packaging machinery operating segment, growth was exceptional at 14 percent. In relation to 2017, selling price and mix changes had a favorable influence on revenue of 1 percent. The average value of the Canadian dollar in comparison to the US dollar during 2018 was essentially on par with the 2017 level. Accordingly, foreign exchange had little impact on reported revenue.

Gross Profit Margins

Gross profit margins fell to 30.6 percent of revenue in the fourth quarter of 2018, down from the 31.3 percent of revenue recorded in the same quarter of 2017. Due to the heightened competitive selling price pressures within key product markets, a deterioration in gross profit margins was experienced. Additionally, the lack of sales volume growth has led to under-utilized equipment capacity, causing a reduction in gross profit margins.

For the current year, gross profit margins reached a level of 30.4 percent of revenue, falling short of the 31.2 percent realized in 2017, culminating in a decrease in EPS of 3.5 cents. Competitive pressures in key product markets were prevalent during the year. This margin erosion was compounded by the rise in raw material costs compared to 2017. These negative factors were essentially nullified through the qualification of more cost efficient raw materials and the implementation of selling price adjustments for customers on raw material price-indexing programs. This was complemented by the significant progress that has been made in curtailing expenses relating to production waste and inventory obsolescence. As part of the Company's long-term organic growth aspirations, sizeable investments in capital have been made in recent years, expanding the manufacturing footprint. Consequently, the cost structure has risen whereas sales volumes remained relatively the same in the current year leading to a narrowing of gross profit margins.

The purchase price index fell by 2.4 percent from the third quarter of 2018. In comparison to a year earlier, the index has dropped by 1.8 percent. During the fourth quarter, polypropylene resin experienced the most significant decrease of 10 percent while the Company's most widely used resin, polyethylene, recorded a more modest decrease of 4 percent.

Expenses and Other

In the fourth quarter of 2018, operating expenses, exclusive of foreign exchange, increased by 14.6 percent in contrast to the slight decline in sales volumes, thereby lowering EPS by 4.5 cents. Higher personnel costs and employee benefit expenses were the main contributing factors. Additionally, the rise in research and technical expenses reflected the level of activity that was undertaken during the quarter in support of product development initiatives. The maturation of foreign exchange forward contracts at less beneficial rates compared to the fourth quarter of 2017 was only partially offset by the positive impact of the weaker Canadian dollar in the current quarter. Accordingly, foreign exchange reduced EPS by 1.0 cent. Effective January 1, 2018, the US federal statutory income tax rate decreased from 35.0 percent to 21.0 percent, generating the lower overall effective income tax rate, which provided 2.5 cents to EPS. The cash invested in money market accounts and short-term deposits was at much higher interest rates in 2018. Consequently, net finance income elevated EPS by 1.0 cent.

For the 2018 fiscal year, operating expenses, adjusted for foreign exchange, advanced by 1.6 percent whereas sales volumes were virtually unchanged, subtracting 3.0 cents from EPS. Greater personnel expenses and strategic product development activities were the main catalysts. The expansion in freight costs due to elevated fuel charges also played a role. Furthermore, foreign exchange had an unfavorable effect on EPS of 4.5 cents due to the combined impact of losses on conversion of the Company's net Canadian dollar expenses into US funds at a higher average rate and the maturation of foreign exchange forward contracts at less favorable rates than was experienced in 2017. More than offsetting these reductions was the much lower income tax expense which resulted from the substantial drop in the US federal statutory income tax rate and contributed 10.0 cents to EPS. The expansion in net finance income and a smaller proportion of net income attributable to non-controlling interests provided an additional 3.0 cents and 1.0 cent to EPS respectively.

Summary of Quarterly Results

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

	Q4 2018	Q3 2018	Q2 2018	Q1 2018	Q4 2017*	Q3 2017	Q2 2017	Q1 2017
Revenue	222,138	220,647	225,191	221,665	222,323	218,348	217,752	228,351
Net income attributable to equity holders of the Company	26,683	27,835	28,042	26,361	39,633	25,368	25,745	28,552
EPS	41	43	43	41	61	39	40	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 current year at $344.3 million, an increase of $20.8 million from the end of the third quarter. Winpak continued to generate strong and consistent cash flow from operating activities before changes in working capital of $47.5 million. Cash was consumed by net working capital additions of $2.7 million. In addition, cash was utilized for property, plant and equipment additions of $16.0 million, income tax payments of $6.9 million, dividends of $1.5 million and other items totaling $0.4 million while net finance income provided cash of $0.8 million.

For the year, the cash and cash equivalents balance advanced by $52.4 million, driven by the exceptional cash flow generated from operating activities before changes in working capital of $191.4 million. Working capital additions utilized cash of $27.7 million. During 2018, the tariffs implemented by the US government on aluminum products caused demand for aluminum to outpace supply with the Company's aluminum foil suppliers. To minimize the disruption on operations, alternate sources of supply were secured and the level of inventory kept on hand was increased. This item was the overriding factor causing inventories to advance by $15.6 million. The timing of selling extended term accounts receivable without recourse to finance institutions in exchange for cash raised trade and other receivables by $14.9 million. Uses of cash included property, plant and equipment additions of $71.2 million, income tax payments of $33.2 million, dividends of $6.1 million and other items amounting to $2.4 million. The property, plant and equipment expenditures included the acquisition of the building and property adjacent to the Winnipeg, Manitoba plant and a new Mexican facility which will house state of the art printing and converting technology. Furthermore, the building expansion of the Company's biaxially oriented nylon operations and incremental extrusion capacity began during the second half of 2018. Net finance income produced cash of $1.6 million.

Looking Forward

Business Outlook

Entering 2019, the Company is cautiously optimistic on realizing positive overall growth in terms of sales volumes. Mixed results were encountered in 2018 with modest volume growth in certain product markets and contractions in other product markets resulting in 2018 sales volumes being virtually unchanged. The growth in the North American food packaging industry was slightly negative in 2018, due in part to changing consumer patterns, this may influence revenue growth to some degree with existing customers moving forward. The Company is continuing to develop new sales opportunities however, the timing for conversion of these into new business remains uncertain as customers' protocols for new supply control the process. Competitive pressures are expected to persist in the coming year and could negatively impact selling prices for existing products or anticipated prices for new product initiatives. In 2018, positive selling price and mix changes were realized with the recovery of resin price increases incurred in the past year due to 73 percent of the Company's revenues being indexed to the price of raw materials albeit with a 3 to 4 month time lag. The decline and volatility in world oil prices in recent months and new resin capacity (polyethylene) coming on stream has reduced the cost of certain resins and this should translate into lower raw material prices for these resins in the first 6 months of 2019. However, early in 2019, there has been some announced cost increases for certain resins. Currently, there is uncertainty whether these resin increases will hold in the market and be implemented. Given these raw material cost uncertainties, it is difficult to predict the magnitude and effect these may have on gross profit margins in first half of 2019. As in 2018, the Company will remain focused on reducing manufacturing costs and improving operational performance, particularly in those areas where new products and processes require more refinement and experience to optimize production.

Capital expenditures of approximately $70 - $80 million are forecasted for 2019 due in part to certain progress payments on extrusion capacity expected to be incurred in late 2018 being delayed until early 2019. New extrusion capacity is planned to be fully operational by mid 2019 at the rigid container facility in Sauk Village, Illinois. The new Mexican plant which will accommodate increased production capacity and new capabilities in printing technology for flexible packaging products is planned to be fully operational early 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 an anticipated commercial start-up in the latter half of 2020. The Company will stay the course on capital deployment and invest in organic growth opportunities including new technologies and expanded product offerings while continuing to remain patient and evaluate acquisition prospects that align strategically with Winpak's core strengths in sophisticated packaging for food, beverage and health care applications.

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. Upon adoption, trade and other receivables that may be subject to factoring arrangements are now classified as FVOCI. 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 fourth quarter of 2018 and the year ended December 30, 2018. IFRS 15 had no impact on the Company's condensed consolidated statements of income for the fourth quarter of 2018 and the year ended December 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.

The Company has undertaken a preliminary review of lease contracts and applied the new measurement model for lessees. The standard will be implemented by the Company in 2019. The Company expects the new lease measurement model for lessees will not have a material impact on the consolidated financial statements. The Company intends to adopt the standard retrospectively with the modified retrospective approach of initially applying the standard recognized at December 31, 2018 in opening retained earnings.

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. The Company does not expect IFRIC 23 to have a significant impact on the 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. The Company 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 December 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 December 30, 2018 to provide reasonable assurance that the financial information being reported is materially accurate. During the fourth quarter ended December 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.