

MANAGEMENT'S DISCUSSION AND ANALYSIS

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.

General Information

The following discussion and analysis dated March 4, 2021 was prepared by management and should be read in conjunction with the consolidated financial statements prepared in accordance with International Financial Reporting Standards (IFRS). The following discussion and analysis is presented in US dollars except where otherwise noted. The consolidated financial statements include the accounts of all subsidiaries. The Company's functional and reporting currency is the US dollar. The Company has filed a separate Management's Discussion and Analysis for its fourth quarter of 2020, which is available on the Company's website at www.winpak.com or on SEDAR at www.sedar.com.

The fiscal year of the Company ends on the last Sunday of the calendar year. As a result, the Company's fiscal year is usually 52 weeks in duration, but includes a 53rd week every five to six years. The 2020 and 2019 fiscal years are both comprised of 52 weeks.

Company Overview

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.

Selected Financial Information

Millions of US dollars, except per share and margin amounts	2020	2019	2018
Revenue	852.5	873.8	889.6
Income from operations	146.8	155.0	150.1
Net income attributable to equity holders of the Company	106.3	114.8	108.9
Gross profit margin	30.9%	31.3%	30.4%
Earnings per share (cents)	164	177	168
<u>Reconciliation of EBITDA</u>			
Net income	108.9	118.1	111.6
Income tax expense	38.8	41.7	40.0
Net finance income	(1.0)	(4.8)	(1.5)
Depreciation and amortization	44.8	43.5	40.1
EBITDA	191.5	198.5	190.2



Overall Performance

- △ Revenue in 2020 was \$852.5 million, representing a decrease of \$21.4 million or 2.4 percent from the prior year. Adjusting for the business acquisition that was completed at the beginning of the fourth quarter of 2019, volumes receded by 2.5 percent. Significant selling price and mix changes further reduced revenue by \$16.3 million and a modestly weaker Canadian dollar caused revenues to drop by \$1.1 million.
- △ Gross profit margins declined by under one half of a percentage point from the prior year to 30.9 percent. Recently added manufacturing capacity increased the Company's cost structure and in combination with lower sales volumes led to diminished gross profit margins. Partially mitigating this negative factor was the magnitude of the reduction in raw material resin costs during 2020 in relation to the selling price pass-through adjustments to customers on raw material price-indexing arrangements.
- △ Net income attributable to equity holders of the Company of \$106.3 million fell short of the prior year's amount of \$114.8 million by 7.4 percent. Diminished gross profit margins, weaker sales volumes and the reduction in net finance income were the key drivers.
- △ Cash and cash equivalents rose by \$98.2 million to end the year at \$495.3 million, a function of the exceptional cash flow from operating activities. Winpak has no short-term borrowings or long-term debt outstanding.

Highlights

- △ Raw materials: The annual average cost of raw materials purchased by the Company declined an additional 7.9 percent in 2020 after contracting by 12.2 percent in 2019.
- △ Operating expenses: In combination, lower travel and pre-production costs eclipsed the rise in personnel expenses, elevating earnings per share by 1.5 cents.
- △ Foreign exchange: The weaker Canadian dollar in comparison to the US dollar had a positive influence on financial results. However, favorable translation differences recorded in regards to Canadian dollar monetary assets and liabilities were less than the positive differences experienced in the prior year. Overall, foreign exchange augmented earnings per share by 0.5 cents.
- △ Capital expenditures: Capital expenditures in 2020 amounted to \$51.3 million, highlighted by outlays relating to the building expansion that will support the new biaxially oriented polyamide (BOPA) line. Other key initiatives included new co-extrusion and converting capacity, along with upgraded co-extrusion competencies, at the modified atmosphere packaging plant.
- △ Financing and investing: The Company generated \$156.0 million in cash flow from operating activities, which was more than sufficient to fund \$51.3 million in capital projects and \$5.8 million in regular dividends. The Company will utilize its cash resources on hand and generate additional cash flow from operations to fund its investing and financing activities in 2021. In the upcoming year, it is anticipated that the business acquisition environment should rebound from the muted activity level experienced in 2020 due to the pandemic. The Company will evaluate opportunities that align strategically with Winpak's core competencies with the ultimate goal of raising long-term shareholder value.

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Results of Operations

Components of total (decrease) increase in earnings per share (EPS)

	2020	2019	2018
Organic growth	(4.0)	(2.5)	(2.0)
Gross profit margins	(7.5)	6.0	(3.5)
Operating expenses, net finance income and non-controlling interests	(1.5)	0.0	1.0
Income taxes	(0.5)	1.0	(7.0)
Foreign exchange	0.5	4.5	(4.5)
Total (decrease) increase in EPS (cents)	(13.0)	9.0	(16.0)

Ongoing operations

Organic growth is the impact on net income due exclusively to increased sales volumes and excludes the influence of acquisitions, divestitures and foreign exchange. Overall, lower sales volumes caused EPS to decline by 4.0 cents. Of this amount, it is estimated that COVID-19 accounted for a decrease of 3.0 cents, whereas non-COVID-19 related sales shortfalls negatively affected EPS by 1.0 cent.

Gross profit margins narrowed in 2020. The contraction was caused by the rise in manufacturing costs in comparison to the drop in sales volumes which was only partially offset by the enlarged spread between selling prices and raw material costs.

Net finance income had an unfavorable influence on EPS of 4.0 cents due to the lower interest rates in effect during the current year. Meanwhile, lower operating expenses and net income attributable to non-controlling interests added 1.5 cents and 1.0 cent to EPS, respectively.

The effective income tax rate advanced by 0.2 percentage points, resulting in a minor reduction in EPS of 0.5 cents.

Foreign exchange had a modest positive effect of 0.5 cents on EPS in relation to the prior year. The weaker Canadian dollar versus its US counterpart contributed to the favorable outcome. On a relative basis, foreign exchange translation gains recorded on the revaluation of Canadian dollar denominated monetary items had a negative impact on EPS as the magnitude was to a lesser extent than in 2019.

Revenue

Revenue Change	Millions of US dollars		
	2020	2019	2018
Volume decrease	(21.4)	(11.9)	(10.4)
Business acquisition	17.4	5.2	-
Price and mix (losses) gains	(16.3)	(6.4)	12.4
Foreign exchange (losses) gains	(1.1)	(2.7)	0.9
Total (decrease) increase in revenue	(21.4)	(15.8)	2.9

The impact of COVID-19 has fluctuated amongst the Company's product groups. It is estimated that COVID-19 lowered 2020 sales volumes between 1.5 to 2.5 percent. Sales activity with respect to customers that serve the food service and restaurant industries was impeded due to the varied public health orders instituted across North America. In comparison, for the customers that serve the retail food industries, overall volumes were heightened due in part to the shift in consumer behavior towards greater at-home food consumption and pantry filling.

For 2020, revenue declined to \$852.5 million, a decrease of \$21.4 million or 2.4 percent compared to 2019 revenue of \$873.8 million. Normalizing for the acquisition of Control Group in October 2019, volumes contracted by 2.5 percent. The flexible packaging operating segment attained volume growth of 2 percent. Modified atmosphere packaging volumes advanced significantly as demand was strong with respect to certain customers that serve the retail meat and cheese markets, most notably for printed rollstock and stand-up pouches. Furthermore, volume growth reflected expansion within the Mexican market. Biaxially oriented nylon and specialty film volumes retreated as several core customers were negatively impacted by COVID-19. Within the rigid packaging and flexible lidding operating segment, volumes declined by 9 percent after adjusting for the acquisition of Control Group. The substantial decrease in rigid container volumes was largely due to the reduced participation in supplying the specialty beverage business with the new recyclable polypropylene cup. The tempered demand within the restaurant industry for condiment and creamer containers was also influential. The lidding product group volumes were essentially unchanged from the prior year. Gains achieved with respect to specialty beverage and dessert lidding were offset by lower creamer and condiment activity. Within the packaging machinery operating segment, volume growth was robust at 11 percent. Compared to 2019, selling price and mix changes had a negative effect on revenue of 1.9 percent. Foreign exchange lowered reported revenue by only 0.1 percent.

Gross profit margins

For the current year, gross profit margins decreased to 30.9 percent of revenue versus the 2019 level of 31.3 percent. This caused an overall decrease in EPS of 7.5 cents. The reduction in sales volumes, in tandem with the expansion in fixed manufacturing costs, lowered EPS by 17.0 cents. Conversely, the extent to which the decline in raw material resin costs eclipsed the corresponding selling price adjustments due to customer indexing augmented EPS by 9.5 cents.



Winpak's average raw material index, which represents the weighted cost of the Company's eight primary raw materials, decreased by 7.9 percent from the 2019 average. The change in raw material pricing fluctuated amongst the different raw materials. Polypropylene and polystyrene resin costs were notably lower, experiencing reductions of 12 percent and 11 percent, respectively.

Raw Material Index

	2020	2019	2018
(Decrease) increase in index compared to prior year	(7.9%)	(12.2%)	2.5%

Expenses

For the 2020 fiscal year, operating expenses, adjusted for foreign exchange, declined at a rate of 1.3 percent in comparison to the drop in sales volumes of 0.4 percent, adding 1.5 cents to EPS. Travel related spending was significantly curtailed during the final three quarters of the year due to the pandemic. Additionally, pre-production costs were higher in the prior year primarily due to the commercialization of production lines. Partially offsetting these two factors, personnel costs were greater during the year.

Foreign Exchange

	2020	2019	2018
Year-end exchange rate of CDN dollar to US dollar	0.778	0.765	0.733
Year-end exchange rate of US dollar to CDN dollar	1.285	1.308	1.365
Appreciation (depreciation) of CDN dollar vs. US dollar year-end exchange rate compared to the prior year	1.7%	4.4%	(7.8%)
Average exchange rate of CDN dollar to US dollar	0.743	0.752	0.776
Average exchange rate of US dollar to CDN dollar	1.345	1.329	1.289
(Depreciation) appreciation of CDN dollar vs. US dollar average exchange rate compared to the prior year	(1.2%)	(3.1%)	0.9%

Winpak utilizes the US currency as both its reporting and functional currency. However, with approximately 59 percent of its production capacity located in Canada, it is exposed to foreign exchange risks and records foreign currency differences on transactions and translations denominated in Canadian dollars as well as other foreign currencies. With a production facility located in Mexico, the Company is also exposed to foreign exchange risks on costs denominated in Mexican pesos but these are less significant.

On a net basis, foreign exchange augmented EPS by 0.5 cents in the current year compared to 2019. Approximately 11 percent of revenues and 20 percent of costs in 2020 were denominated in Canadian dollars. The net outflow of Canadian dollars exposes Winpak to transaction differences arising from exchange rate fluctuations. The depreciation in the average exchange rate of the Canadian dollar in relation to the US dollar in 2020 of 1.2 percent raised EPS by 1.0 cent relative to 2019. In contrast, translation differences, which arise when Canadian dollar monetary assets and liabilities are translated at exchange rates that change over time, subtracted 0.5 cents from EPS as less significant gains were recorded in 2020 in comparison to 2019.

Summary of quarterly results

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

Quarter ended	2020			Quarter ended	2019		
	Revenue	Net income*	EPS		Revenue	Net income*	EPS
March 29	213,596	23,155	36	March 31	224,035	28,429	44
June 28	216,201	29,226	45	June 30	219,618	31,086	48
September 27	210,605	26,684	41	September 29	212,734	28,578	44
December 27	212,091	27,256	42	December 29	217,456	26,679	41
	852,493	106,321	164		873,843	114,772	177

*attributable to equity holders of the Company

Various factors affect timing of the Company's earnings during the course of a year. Typically, seasonal factors contribute to stronger revenue and net income in the second and fourth quarters compared to the first and third quarters. Factors influencing seasonal trends are the higher demand for certain food products in advance of the summer season and the greater number of holidays in the fourth quarter. During the third quarter, revenue and net income are typically lower due to reduced order levels and plant maintenance shutdowns scheduled to coincide with the summer. Sudden and substantial changes in the rate of exchange between the Canadian and US dollars from one quarter to another may cause revenue and net income to vary from the historic trend. Similarly, sudden and significant changes in the cost of raw materials consumed from one quarter to another can be expected to increase or decrease net income in a manner that does not conform to the normal pattern. Furthermore, unexpected adverse weather conditions could influence the supply and price of raw materials or customer order levels, and the timing of commercializing new manufacturing equipment can cause revenue and net income to depart from established trends.

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The following items influenced the timing of the Company's reported results beyond historic trends. During 2020, COVID-19 had the largest impact on revenue in the third quarter, and to a lesser extent, on revenue in the second and fourth quarters. The magnitude of selling price reductions to customers on formal contractual price indexing arrangements accelerated throughout 2020 due to the persistent decline in the external benchmark indices. Conversely, in 2019, revenue in the first and second quarter was elevated primarily due to selling price indexing adjustments. Revenue in the fourth quarter of 2019 was favorably influenced by the purchase of Control Group but was negatively affected by a major customer's reduced volumes as the Company is supplying a lesser share of the business with their conversion to a recyclable product. Due to the governmental restrictions imposed and Company policies implemented with respect to limiting travel related activities, spending in this area declined notably in the final three quarters of 2020. Operating expenses in the fourth quarter of 2019 were affected by elevated pre-production costs and expenses incurred for a pension plan settlement. In 2020, significant foreign exchange losses were recorded in the second quarter following the revaluation of monetary assets and liabilities whereas in the fourth quarter, significant foreign exchange gains were experienced on the revaluation of these items. Net finance income was muted from the second quarter of 2020 onwards on account of the depressed rate of return earned on the Company's cash and cash equivalent balances.

Cash Flow, Liquidity and Capital Resources

At December 27, 2020, Winkpak's cash and cash equivalents balance climbed to \$495.3 million, advancing by \$98.2 million from the year prior. This reflected cash provided by operating activities of \$156.0 million less disbursements for investing activities of \$51.5 million and financing activities of \$6.3 million.

Operating activities

Cash from operating activities reached \$156.0 million. Cash generated from operating activities before changes in working capital was \$191.7 million, a decrease of \$7.8 million from 2019. Working capital additions amounted to only \$1.3 million. Trade and other receivables declined by \$6.4 million following the contraction in revenue in the final quarter of the year in relation to the fourth quarter of 2019. Furthermore, value added taxes owing from government authorities in relation to recent capital expansion projects were collected. In 2020, inventories expanded by \$5.2 million due to the timing of raw material purchases. Income tax payments were \$33.9 million, down \$3.8 million from the previous year due to the level of tax installments required on account of lower taxable income levels. During the year, employee defined benefit plan contributions of \$1.5 million were made in accordance with the most recent actuarial valuations. Lastly, net finance income dropped by \$4.0 million due to the level of interest rates that prevailed for the final three quarters of the year.

Investing activities

Investing activities amounted to \$51.5 million during the year, of which plant and equipment additions represented \$51.3 million. The main plant and equipment additions included: the building expansion in Winnipeg, Manitoba that will house the new start-of-the-art BOPA line as well as the upgrade of two cast co-extrusion lines and progress payments made for a new cast co-extrusion line at the modified atmosphere packaging plant in Winnipeg, Manitoba. The retrofit of the existing lines will enable the Company to broaden its product portfolio with a new generation of recyclable/reusable high-barrier thermoformable transparent films. Over the long term, Winkpak's expenditures for maintaining the existing equipment's capabilities have averaged approximately 2 percent of revenue.

Financing activities

Financing activities in 2020 included dividends to common shareholders of \$5.8 million and payments with respect to lease liabilities of \$0.5 million. A regular quarterly dividend of \$0.03 Canadian was paid. The Company's objectives in managing capital are to have sufficient liquidity to pursue organic growth along with strategic acquisitions so that an appropriate rate of return on investments is provided to shareholders.

Resources

Investments to drive organic and acquisitive growth can be significant, requiring substantial financial resources. A range of funding alternatives is available including cash and cash equivalents, cash flow provided by operations, additional debt facilities, issuance of equity or a combination thereof. An informal investment grade credit rating allows the Company access to relatively low interest rates on debt. The Company currently has unused operating lines of \$38 million, which are believed adequate for liquidity purposes. Based on discussions with various financial institutions, Winkpak believes that additional credit can be arranged from banks and other major lenders as required. The Company is confident that all 2021 requirements for capital expenditures, payment of lease liabilities, working capital, and dividend payments can be financed from cash resources, cash provided by operating activities and unused credit facilities.

Risks and Financial Instruments

The Company recognizes that net income is exposed to changes in market interest rates, foreign exchange rates, prices of raw materials and risks regarding the financial condition of customers and financial counterparties. These market conditions are regularly monitored and actions are taken, when appropriate, according to Winkpak's policies established for the purpose. Despite the methods employed to manage these risks, future fluctuations in interest rates, foreign exchange rates, raw material costs and counterparty financial condition can be expected to impact net income.

With respect to foreign exchange risk, Winkpak employs hedging programs to minimize risks associated with changes in the value of the Canadian dollar relative to the US dollar. To the extent possible, the Company maximizes natural currency hedging by matching inflows from revenue in a currency with outflows of costs and expenses denominated in the same currency. For the remaining exposure, the Company's foreign exchange policy requires that between 50 and 80 percent of the Company's net requirement of Canadian dollars for the ensuing 9 to 15 months will be hedged at all times with forward or zero-cost option contracts. The Company may also enter into foreign currency forward contracts when equipment purchases will be settled in other foreign currencies. Purchases of foreign exchange products for the purpose of speculation are not permitted. Transactions are only conducted with certain approved Schedule 1 Canadian financial institutions.



Significant fluctuations in foreign exchange rates represent a material exposure for the Company's financial results. Hedging programs employed may mitigate a portion of exposures to short-term fluctuations in foreign currency exchange rates. However, the Company's financial results over the long term will inevitably be affected by sizeable changes in the value of the Canadian dollar relative to the US dollar. Wapak estimates that each time the exchange rate strengthens or weakens by one Canadian cent against the US dollar, net income with respect to transaction differences will decrease or increase by approximately 0.7 of a US cent per share, respectively.

During 2020, certain foreign currency forward contracts matured and the Company realized pre-tax foreign exchange losses of \$0.5 million. As at December 27, 2020, the Company had US to CDN dollar foreign currency forward contracts outstanding with notional amounts of \$31.0 million. The pre-tax unrealized foreign exchange gain on these contracts of \$1.1 million was recorded in other comprehensive income.

Wapak has not participated in any derivatives market for raw materials. Wapak is not aware of any instrument that fully mitigates fluctuations in raw material costs over the long term. To manage this risk, Wapak has entered into formal selling price-indexing agreements with certain customers whereby changes in raw material prices are reflected in selling price adjustments, albeit with a three to four-month time lag. For 2020, 63 percent of Wapak's revenue was governed by selling price-indexing agreements. For all other customers, the Company responds to changes in raw material costs by adjusting selling prices on a customer-by-customer basis. However, market conditions can have an impact on these price adjustments such that the combined impact of selling price adjustments and changes in raw material costs can be significant to Wapak's net income.

Credit risk arises from cash and cash equivalents held with banks, derivative financial instruments (foreign currency forward and option contracts), as well as credit exposure to customers, including outstanding accounts receivable. The Company assesses the credit quality of counterparties, taking into account their financial position, past experience and other factors. Management regularly monitors customer credit limits, performs credit reviews and, in certain cases, insures accounts receivable balances against credit losses. The Company also sells certain extended term trade receivables without recourse to financial institutions in exchange for cash. The Company invests its excess cash on a short-term basis, to a maximum of six months, with financial institutions and/or governmental bodies that must be rated 'AA' or higher for CDN financial institutions and 'A-1' or higher for US financial institutions by recognized international credit rating agencies or insured 100 percent by the US government or a 'AAA' rated Canadian federal or provincial government. Nonetheless, unexpected deterioration in the financial condition of a counterparty can have a negative impact on the Company's net income in the case of default.

The Company enters into contractual obligations in the normal course of business operations. These obligations, as at December 27, 2020, are summarized below.

Contractual Obligations	Payment due, by period (thousands of US dollars)				
	Total	1 year	2 - 3 years	4 - 5 Years	After 5 years
Leases*	9,822	1,287	2,714	2,399	3,422
Purchase obligations	26,294	26,294	-	-	-
Total contractual obligations	36,116	27,581	2,714	2,399	3,422

*leases reflect non-cancellable contract periods and do not include amounts relating to extension options that are exercisable by the Company

Accounting Policy Changes

The International Accounting Standards Board (IASB) issued the following amended standards that have not been applied in preparing the consolidated financial statements and notes thereto, for the year ended December 27, 2020 as their effective dates fall within annual periods beginning subsequent to the current reporting period: "Property, Plant and Equipment: Proceeds Before Intended Use (Amendments to IAS 16)", "Onerous Contracts - Cost of Fulfilling a Contract (Amendments to IAS 37)" and "COVID-19-Related Rent Concessions (Amendment to IFRS 16)".

In May 2020, the 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.

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.

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 is effective for annual reporting periods beginning on or after June 1, 2020 and is to be applied retrospectively. The Company does not expect the amendment to have a significant impact on the consolidated financial statements when it is adopted in 2021.

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Looking Forward

2020 was a unique and challenging year for Winpak and all its dedicated employees due to the rapid and ever-changing effects arising from the Coronavirus (COVID-19) pandemic. The Company was able to successfully navigate and overcome the unforeseen challenges that emerged during the year. Winpak is classified as an essential supplier of packaging materials and machinery for our customers in the food, beverage and healthcare industries. Entering 2021, the Company, along with businesses around the world, continues to pay very close attention to the ongoing developments arising from the pandemic. The wide-ranging level of shutdowns, restrictions and reopenings throughout North America has led to a notable increase in the number of COVID-19 infections. The heightened level of cases in North America will more than likely persist, in varying degrees, during the upcoming year. Presently, there is a level of uncertainty in regards to the quantities of approved vaccines, execution of the vaccination plans and the efficacy of current COVID-19 vaccines against variants that have surfaced. From the onset of the pandemic, all Company plants have been fully operational with a minimal number of positive COVID-19 cases. Winpak remains unwavering in its efforts to curtail the effects of the pandemic and will continue to focus on ensuring that all required health and safety protocols are constantly updated and supported at the production facilities to provide our highly committed and devoted employees and their families with a safe work environment. For the foreseeable future, businesses throughout the world will be required to manage, and adjust accordingly, to the challenges presented by the pandemic.

As 2021 begins, the consensus is that the economy could gradually return to pre-COVID-19 levels in the second half of the year, however, the timing and extent is uncertain. In the upcoming year, sales volume growth and enhancing the Company's sustainable product offering will be of prime focus. Winpak is cautiously optimistic regarding overall sales volume growth despite the negative headwinds that may affect certain product groups due to the pandemic. Several business opportunities are in various stages of the sales channel and the timing of fulfillment is dependent upon the customers' protocols. Strategic initiatives to increase the Company's presence within healthcare packaging, including the introduction of a global healthcare model with Winpak, in the medical and pharmaceutical markets are well underway with established plans in place. The flexible packaging segment should contribute respectable growth in the protein and cheese retail markets with success in printed products, spouted pouches and reclose label format packaging. This segment could see a modest recovery in the food service, non-food retail and medical care markets as the economy more fully reopens. The rigid packaging and flexible lidding segment is poised to provide meaningful volume growth as well. The rigid container product group has several new customer product launches, including the supply of custom containers for retort pet food trays and single-serve dessert items. These endeavors began to scale-up in the latter part of the fourth quarter of 2020. The flexible lidding and specialized printed packaging product groups have been awarded new business with pharmaceutical customers. Demand for rigid packaging and flexible lidding segment products that cater to the food service and personal healthcare markets is anticipated to slowly recover in the second half of the year. The packaging machinery segment set a record in 2020 with the number of machines sold, and this momentum has continued into 2021 with a vibrant order backlog. Throughout 2020 and thus far in 2021, the raw material procurement chain has been dependable with nominal interruptions, enabling all facilities to operate effectively. Raw material resin costs for polypropylene and polyethylene started to increase notably in the last four months of 2020 and this upward trend continued early in 2021 with significant price increases being implemented by producers. The increased resin costs have come about due to several factors: heightened demand for feedstocks (benzene and ethylene), unplanned plant outages at several producers and an increase in global demand for the noted feedstocks creating a strong export market. These higher resin prices will elevate costs of goods sold in the first half of the year and put downward pressure on gross profit margins. Fortunately, this should not have a material impact on gross profit margins as the Company's margins are somewhat insulated from erosion. The higher resin costs will result in appreciable increases in customer selling prices due to the pass-through of higher raw material costs as 63 percent of Winpak's revenues are indexed, albeit with a three to four-month time lag. Current market views are that the higher costs for the two previously noted resins will remain in effect for the first half of 2021 with some potential relief in the second half of the year. At the two Winnipeg, Manitoba plants, elevated pre-production costs are expected to be temporarily incurred towards the end of the year when the biaxially oriented polyamide (BOPA) line and cast co-extrusion line at the modified atmosphere packaging plant enter the commercialization phase.

In 2021, Winpak is committed to securing organic growth opportunities with new technologies, processes and material sciences, expanding the sustainable product platform with recycle-ready/reusable products, which are now becoming a focal point with customers in the North American plastic packaging market. In addition, the Company will remain diligent to further reduce its environmental footprint. Capital spending for the upcoming year is anticipated to be higher than the 2020 level of \$51.3 million and is forecast to be in the range of \$60 to \$70 million. The pandemic has created some interruptions with certain capital projects due to setbacks with supplier equipment deliveries and installations. The Winnipeg, Manitoba modified atmosphere packaging plant is at various stages of completing several key initiatives including: incremental capacity with a new cast co-extrusion line, new conversion capabilities for reclosable lidding and spouted pouches and retrofitting a cast co-extrusion line, which will elevate Winpak's technical competencies with the next version of reusable/recyclable high-barrier thermoformable films to broaden the Company's sustainable product offerings. The BOPA line and building expansion in Winnipeg, Manitoba continues to move forward with commercialization scheduled for the third quarter of 2021. Relocation of the packaging machinery plant to Rialto, California and additional slitting capabilities at the Norwood, New Jersey site were completed early in the first quarter of 2021. At the Sauk Village, Illinois rigid container facility, the Company will be expanding its product portfolio with the installation of the infrastructure and production equipment to enter the injection molded container and in-mold label market. The initial production capacity is anticipated to be in place by the fourth quarter of the upcoming year. For the most part, potential acquisition opportunities were put on hold during 2020 due to COVID-19. Looking ahead to 2021, expectations are that the acquisition pipeline will resurface and pickup during the course of the year. Winpak will continue to review and evaluate acquisition opportunities that align strategically with the Company's core competencies in sophisticated high-barrier packaging for food, medical and pharmaceutical applications all being focused on providing long-term shareholder value.

Critical Accounting Estimates and Judgments

The Company believes the following accounting estimates and judgments are critical to determining and understanding the operating results and the financial position of the Company.

Aggregation of operating segments – Judgment is applied in aggregating operating segments into a reportable segment. Aggregation occurs when the operating segments have similar economic characteristics and have similar products, production processes, types of customers and distribution methods.



Business combinations – The determination of fair value associated with identifiable property, plant and equipment and intangible assets following a business combination requires management to make assumptions. More specifically, this is the case when the Company calculates fair values using appropriate valuation techniques, which are generally based on a forecast of expected future cash flows for intangible assets, and on a replacement cost approach, an income-based approach and/or a market-based approach for property, plant and equipment. These valuations are closely related to the assumptions made by management about the future return on the related assets and the discount rate applied. Significant changes to these assumptions could significantly change the fair values associated with intangible assets following a business combination, which would impact the amortization expense.

Employee benefit plans – Accounting for employee benefit plans requires the use of actuarial assumptions. The assumptions include the discount rate, rate of compensation increase, mortality rate and healthcare costs. These assumptions depend on underlying factors such as economic conditions, government regulations and employee demographics. These assumptions could change in the future and may result in material adjustments to employee benefit plan assets or liabilities.

Impairment of property, plant and equipment, intangible assets and goodwill – An integral component of impairment testing is determining the asset's recoverable amount. The determination of the recoverable amount involves significant management judgment, including projections of future cash flows and the appropriate discount rate. The cash flows are derived from the financial forecast for the next five years and do not include restructuring activities that the Company is not yet committed to or significant future investments that will enhance the asset's performance of the cash-generating unit (CGU) being tested. Qualitative factors, including market presence and trends, strength of customer relationships, strength of local management, strength of debt and capital markets, and degree of variability in cash flows, as well as other factors, are considered when making assumptions with regard to future cash flows and the appropriate discount rate. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the average projected sales volume growth, the average projected gross profit percentage and the terminal growth rate used for extrapolation purposes. A change in any of the significant assumptions or estimates could result in a material change in the recoverable amount. The company has nine CGUs, of which the carrying values for three include goodwill and must be tested for impairment annually.

Timing of revenue recognition – Significant judgment is required to determine whether revenue should be recognized over time or at a point in time. To assess whether any revenue should be recognized over time, the Company analyzes customer-specific products without alternative use to determine whether a legally enforceable right to payment exists as performance is completed, including a reasonable return.

Leases – Management assesses at lease commencement date whether it is reasonably certain to exercise lease extension options. In addition, assumptions are made as to the discount rate applied to the lease liability. If there is a significant event or significant change in circumstances within the Company's control, these judgments and assumptions could change and may result in material adjustments to right-of-use assets and lease liabilities.

Disclosure Controls and Internal Controls

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 and effectiveness 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 and operating effectively as of December 27, 2020 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 and testing of the effectiveness 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 and operating effectively as of December 27, 2020 to provide reasonable assurance that the financial information being reported is materially accurate. During the fourth quarter ended December 27, 2020, there have been no changes in 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.

Other

Additional information relating to the Company is available on the Company's website at www.winpak.com or SEDAR at www.sedar.com, including the Annual Information Form dated March 4, 2021.