



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 2, 2022 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 2021, 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 2021 and 2020 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 | 2021 | 2020 | 2019 |
|---|---------|-------|-------|
| Revenue | 1,002.0 | 852.5 | 873.8 |
| Income from operations | 142.4 | 146.8 | 155.0 |
| Net income attributable to equity holders of the Company | 103.8 | 106.3 | 114.8 |
| Gross profit margin | 27.4% | 30.9% | 31.3% |
| Earnings per share (cents) | 160 | 164 | 177 |
| Reconciliation of EBITDA | | | |
| Net income | 106.3 | 108.9 | 118.1 |
| Income tax expense | 35.3 | 38.8 | 41.7 |
| Net finance expense (income) | 0.8 | (1.0) | (4.8) |
| Depreciation and amortization | 45.4 | 44.8 | 43.5 |
| EBITDA | 187.8 | 191.5 | 198.5 |

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Overall Performance

- △ Revenue grew by \$149.5 million or 17.5 percent from 2020 to an all-time high of \$1,002.0 million. Revenue expansion reflected the significant impact of both volume growth of \$82.3 million and the positive influence of selling price and mix changes of \$60.4 million.
- △ Gross profit margins declined to 27.4 percent from the prior year's result of 30.9 percent. The substantial contraction in the spread between selling prices and raw material costs was only somewhat offset by the gains attributable to the rate at which sales volumes increased in relation to the rise in manufacturing costs. Gross profit increased by 4.1 percent from \$263.6 million in 2020 to \$274.4 million in 2021.
- △ Net income attributable to equity holders of the Company of \$103.8 million decreased from the prior year's net income of \$106.3 million by 2.4 percent. The effect of the robust growth in sales volumes was slightly eclipsed by the lower gross profit margins.
- △ Cash and cash equivalents ended the year at \$377.5 million, despite the declaration of a special dividend of \$159.4 million (\$195 million Canadian or \$3.00 per share). The Company has no short-term borrowing or long-term debt outstanding.

Highlights

- △ Raw materials: The annual average cost of raw materials purchased by the Company escalated to unprecedented levels in 2021 to the extent of 43.8 percent, after receding in 2020 by 7.9 percent and declining by 12.2 percent in 2019. The pronounced change in the index over the past 12 months was caused by the sustained, heightened global demand for the Company's key resins and adverse weather events which led to constrained producer supply.
- △ Operating expenses: Higher personnel costs, along with heightened freight and distribution costs, contributed to the elevation of operating expenses. Expected credit loss recoveries on trade and other receivables had the opposite effect and were in contrast to the expected credit loss expenses recorded in 2020. On a net basis, these items reduced earnings per share by 2.5 cents.
- △ Foreign exchange: In 2021, when compared to the prior year, the average exchange rate of the Canadian dollar appreciated against the US dollar by 7.1 percent, creating a loss as Canadian dollar denominated expenses exceeded Canadian dollar denominated revenues. This was largely nullified by the gains realized on the maturation of foreign exchange contracts that form part of the Company's foreign exchange hedging policy.
- △ Net finance expense (income): Declines in interest rates and lower average cash and cash equivalent amounts in 2021 combined to reduce EPS by 2.0 cents.
- △ Capital expenditures: Capital expenditures in 2021 totaled \$48.3 million, highlighted by spending relating to the biaxially oriented nylon facility expansion and the new extrusion line it is housing, the new cast co-extrusion line at the modified atmosphere packaging plant and the building infrastructure and initial production equipment for injection molded containers and in-mold labels at the Sauk Village, Illinois rigid container operation.
- △ Financing and investing: During 2021, Wipak generated \$97.0 million in cash flow from operating activities, which when combined with cash on hand, was more than sufficient to fund a special dividend of \$159.4 million, \$48.3 million in capital projects, \$6.2 million in regular dividends and \$1.0 million of other items, resulting in a year-end net cash position of \$377.5 million. The Company will utilize its cash resources on hand and generate additional cash flow from operations to fund its investing and operating activities in 2022. In addition, management will continue to evaluate strategic acquisition opportunities in concert with implementing the organic capital investment program, all focused on enhancing long-term shareholder value.



Results of Operations

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

| | 2021 | 2020 | 2019 |
|--|--------|--------|-------|
| Organic growth | 15.0 | (4.0) | (2.5) |
| Gross profit margins | (16.0) | (7.5) | 6.0 |
| Operating expenses, net finance expense (income) and non-controlling interests | (4.5) | (1.5) | 0.0 |
| Income taxes | 3.5 | (0.5) | 1.0 |
| Foreign exchange | (2.0) | 0.5 | 4.5 |
| Total (decrease) increase in EPS (cents) | (4.0) | (13.0) | 9.0 |

Ongoing operations

Organic growth is the impact on net income due entirely to increased sales volumes and excludes the influence of acquisitions, divestitures and foreign exchange. Overall, higher sales volumes raised EPS by 15.0 cents. Of this amount, it is estimated that COVID-19 accounted for an advancement of 3.0 cents while non-COVID-19 related sales growth positively affected EPS by 12.0 cents.

Gross profit margins contracted in 2021 as the significant narrowing in the spread between selling prices and raw material costs was only partially offset by the expansion caused by the pace at which sales volumes grew in relation to the rise in manufacturing costs.

Due to the lower average cash and cash equivalents balance and the modest decline in the rate of interest earned thereon, net finance expense (income) lowered EPS by 2.0 cents. Meanwhile, the elevation in operating expenses subtracted 2.5 cents from EPS.

The effective income tax rate dropped by 1.4 percentage points, adding 3.5 cents to EPS.

Foreign exchange had a negative impact of 2.0 cents on EPS versus the previous year. The Company's Canadian dollar transactions were translated at a less beneficial average exchange rate in 2021 and this occurrence was only partially mitigated by the gains realized on foreign exchange forward contracts. Additionally, negative translation differences were recorded on the revaluation of Canadian dollar monetary assets and liabilities in the current year in contrast to the positive differences that were realized in 2020.

Revenue

| Revenue Change | Millions of US dollars | | |
|--------------------------------------|------------------------|--------|--------|
| | 2021 | 2020 | 2019 |
| Volume increase (decrease) | 82.3 | (21.4) | (11.9) |
| Business acquisition | - | 17.4 | 5.2 |
| Price and mix gains (losses) | 60.4 | (16.3) | (6.4) |
| Foreign exchange gains (losses) | 6.8 | (1.1) | (2.7) |
| Total increase (decrease) in revenue | 149.5 | (21.4) | (15.8) |

COVID-19 has influenced the Company's product groups to varying degrees. Throughout 2021, sales order levels have improved notably with respect to customers that are aligned with the foodservice and hospitality industries. Simultaneously, for customers that serve the retail food market, volumes remained elevated. Relative to 2020, it is estimated that COVID-19 enhanced 2021 sales volumes between 1.5 to 2.5 percent.

For 2021, revenue reached an all-time high of \$1,002.0 million, eclipsing the \$1 billion threshold, growing by 17.5 percent from the 2020 level of \$852.5 million. Volumes strengthened by 9.7 percent. Within the rigid packaging and flexible lidding operating segment, volumes climbed by 12 percent. The substantial increase in rigid container volumes was a combination of customers' new product offerings, notably pet food trays and dessert containers, and elevated condiment and snack food container shipments. Lidding product group volumes were modestly higher, highlighted by new retort pet food lidding business along with buoyant snack food lidding activity. Sizeable volume growth was realized by the specialized printed packaging product group as new nutraceutical packaging business was secured. The flexible packaging operating segment attained volume growth of 9 percent. In particular, modified atmosphere packaging volumes expanded due to the enhanced demand for meat and cheese packaging. Major customers in both retail and foodservice markets raised their order levels considerably. Additionally, new frozen food packaging business was commercialized mid-year. Biaxially oriented nylon volumes benefitted from the heightened demand of non-food retail customers which was constrained in 2020 with the more restrictive public health orders. Similarly, specialty film volumes accelerated in the current year due to the rebound experienced by medical customers whose business was severely hampered by the pandemic in 2020. Packaging machinery volumes receded by 5 percent as several machines that were scheduled to be shipped towards the end of the year were deferred until early 2022 on account of supply chain delays for components. Compared to 2020, selling price and mix changes had a large favorable effect on revenue of 7.0 percent as the substantial increase in raw material costs throughout 2021 resulted in higher selling prices to customers. Foreign exchange had a minor positive influence of 0.8 percent on revenue.

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Gross profit margins

For the current year, gross profit margins decreased to 27.4 percent of revenue versus the 2020 level of 30.9 percent. This resulted in an overall contraction in EPS of 16 cents. Raw material costs reached unprecedented levels, escalating to a much a greater extent than the corresponding selling price adjustments, lowering EPS by 27 cents. In accordance with the contractual timing of passing along these raw material cost increases to customers on formal price indexing programs, the average delay is approximately four months and was responsible for this inequity. With the robust expansion in sales volumes, the Company was able to achieve substantial manufacturing cost efficiencies which elevated EPS by 11 cents.

Winpak's average raw material index, which represents the weighted cost of the Company's eight primary raw materials, increased by 43.8 percent from the 2020 average. The magnitude of the rise in raw material pricing fluctuated amongst the different raw materials. The most prominent increase was experienced by polypropylene resin at 134 percent. In addition, polyethylene resin, nylon resin and foil advanced by 53 percent, 42 percent and 24 percent, respectively.

Raw Material Index

| | 2021 | 2020 | 2019 |
|---|-------|--------|---------|
| Increase (decrease) in index compared to prior year | 43.8% | (7.9%) | (12.2%) |

Expenses

For the 2021 fiscal year, operating expenses, adjusted for foreign exchange, advanced at a rate of 11.4 percent in comparison to the 9.7 percent acceleration in sales volumes, subtracting 2.5 cents from EPS. Heightened freight and distribution costs, in combination with personnel additions to Winpak's salesforce to support strategic market growth initiatives, including the Wiicare healthcare platform with Wipak, Winpak's European sister company, were the key factors leading to the rise in operating expenses. This was somewhat muted by the expected credit loss recoveries realized on trade and other receivables in the current year, a turnaround from the expected credit loss expenses recorded in the prior year.

Foreign Exchange

| | 2021 | 2020 | 2019 |
|--|-------|--------|--------|
| Year-end exchange rate of CDN dollar to US dollar | 0.781 | 0.778 | 0.765 |
| Year-end exchange rate of US dollar to CDN dollar | 1.281 | 1.285 | 1.308 |
| Appreciation of CDN dollar vs. US dollar year-end exchange rate compared to the prior year | 0.4% | 1.7% | 4.4% |
| Average exchange rate of CDN dollar to US dollar | 0.796 | 0.743 | 0.752 |
| Average exchange rate of US dollar to CDN dollar | 1.256 | 1.345 | 1.329 |
| Appreciation (depreciation) of CDN dollar vs. US dollar average exchange rate compared to the prior year | 7.1% | (1.2%) | (3.1%) |

Winpak utilizes the US currency as both its reporting and functional currency. However, with approximately 58 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 had an unfavorable impact on EPS of 2.0 cents in 2021 compared to the prior year. Approximately 11 percent of revenues and 19 percent of costs in the current year were denominated in Canadian dollars. The net outflow of Canadian dollars exposes Winpak to transaction differences arising from exchange rate fluctuations. The appreciation in the average exchange rate of the Canadian dollar in relation to the US dollar in 2021 of 7.1 percent decreased EPS by 3.5 cents compared to 2020. As part of the Company's hedging program to manage this risk, the foreign exchange contracts that matured during 2021 were at a more advantageous average exchange rate, generating foreign exchange gains. In the prior year, foreign exchange losses were incurred on these financial instruments and the relative change increased EPS by 2.5 cents. In contrast, translation differences, which arise when Canadian dollar monetary assets and liabilities are translated at exchange rates that change over time, lowered EPS by 1.0 cent in the current year in comparison to 2020.

Summary of quarterly results

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

| Quarter ended | 2021 | | | Quarter ended | 2020 | | |
|---------------|-----------|-------------|-----|---------------|---------|-------------|-----|
| | Revenue | Net income* | EPS | | Revenue | Net income* | EPS |
| March 28 | 224,806 | 24,495 | 38 | March 29 | 213,596 | 23,155 | 36 |
| June 27 | 243,969 | 28,520 | 44 | June 28 | 216,201 | 29,226 | 45 |
| September 26 | 254,166 | 20,762 | 32 | September 27 | 210,605 | 26,684 | 41 |
| December 26 | 279,053 | 30,031 | 46 | December 27 | 212,091 | 27,256 | 42 |
| | 1,001,994 | 103,808 | 160 | | 852,493 | 106,321 | 164 |

*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.

The following items influenced the timing of the Company's reported results beyond historic trends. In 2021, COVID-19 had a favourable impact on revenue with the most significant effect being realized in the third and fourth quarters. In 2020, the pandemic tempered revenue from the second quarter onwards and was most pronounced in the third quarter. The magnitude of selling price increases to customers on formal contractual price indexing arrangements accelerated throughout 2021 due to the persistent advancement in the external benchmark indices. In 2020, the opposite effect was experienced on account of indices declining during each quarter of the year. 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 and then returned to pre-pandemic amounts in the last two quarters of 2021.

Cash Flow, Liquidity and Capital Resources

At December 26, 2021, Winpak's cash and cash equivalents balance amounted to \$377.5 million, a reduction of \$117.9 million from a year earlier. This decrease resulted from cash provided by operating activities of \$97.0 million less disbursements for investing activities of \$48.5 million and financing activities of \$166.4 million.

Operating activities

Cash from operating activities reached \$97.0 million. Cash generated from operating activities before changes in working capital was \$186.0 million, a decrease of \$5.7 million from 2020. The net investment in working capital amounted to \$68.2 million. The increases in inventories, trade and other receivables and trade payables and other liabilities each related to the unprecedented rise in raw material costs as well as the healthy growth in sales volumes. Income tax payments were \$19.1 million, down \$14.9 million from the previous year as the lower taxable income amounts reduced the required income tax installments.

Investing activities

Investing activities in the current year totaled \$48.5 million, of which plant and equipment additions represented \$48.3 million. The plant and equipment expenditures included the completion of the Company's biaxially oriented nylon facility expansion and the installation of the related additional extrusion capacity. Furthermore, the new cast co-extrusion line at the modified atmosphere packaging plant was installed and successfully commercialized. The rigid container operation in Sauk Village, Illinois completed the building infrastructure and installation of the initial production equipment for injection molded containers and in-mold labels. Over the long term, Winpak's expenditures for equipment enhancements in maintaining existing capacity have averaged approximately 2 percent of revenue.

Financing activities

Financing activities in 2021 included dividends to common shareholders of \$165.6 million and payments with respect to lease liabilities of \$0.8 million. Dividends consisted of a special dividend issued in July of the current year of \$159.4 million (\$195.0 million Canadian) and regular dividends of \$6.2 million. 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, Winpak believes that additional credit can be arranged from banks and other major lenders as required. The Company is confident that all 2022 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 Winpak'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.

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With respect to foreign exchange risk, Winpak 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. Winpak 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 0.8 of a US cent per share, respectively.

During 2021, certain foreign currency forward contracts matured and the Company realized pre-tax foreign exchange gains of \$0.9 million. As at December 26, 2021, the Company had US to CDN dollar foreign currency forward contracts outstanding with notional amounts of \$33.0 million. The pre-tax unrealized foreign exchange loss on these contracts of \$0.7 million was recorded in other comprehensive income.

Winpak has not participated in any derivatives market for raw materials. Winpak is not aware of any instrument that fully mitigates fluctuations in raw material costs over the long term. To manage this risk, Winpak 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 six-month time lag. For 2021, 69 percent of Winpak'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 Winpak'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 26, 2021, 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* | 8,132 | 1,335 | 2,811 | 1,597 | 2,389 |
| Purchase obligations | 15,769 | 15,769 | - | - | - |
| Total contractual obligations | 23,901 | 17,104 | 2,811 | 1,597 | 2,389 |

*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 following accounting amendment came into effect commencing in the Company's 2021 fiscal year:

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

Future Accounting Changes

The 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 26, 2021 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 "Deferred Taxes Related to Assets and Liabilities Arising from a Single Transaction (Amendments to IAS 12)".



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

Looking Forward

Wapak enters 2022 with a foundation built for solid sales volume growth and enhanced profitability. In 2021, the Company, along with all of its devoted employees, navigated one of the most challenging years in its history. Wapak successfully managed the effect of the COVID-19 pandemic, dealt with an extremely difficult supply chain environment and faced limited availability of human resources. These matters will be prevalent again in 2022 and could influence the Company's results. However, to the extent possible, Wapak has implemented counter measures to minimize the financial impact and disruptive nature of these issues, ensuring our customers' packaging needs are fully met in an efficient and timely manner. In 2021, raw material procurement relationships with long-term suppliers were leveraged. Additionally, securing alternate sources of raw material supply, expediting incoming shipments and implementing material substitutions where possible were key elements undertaken by Wapak. Furthermore, investments in plant infrastructure and warehousing have been initiated to support the maintenance of higher inventory levels of key raw materials. During the current wave of the pandemic, the health and safety of our employees continues to be the primary focus and additional standard operating procedures have been instituted to minimize the risk of workplace transmission. Even with high levels of community transmission, the Company has been able to maintain the continuity of operations in all of our facilities. Once the current phase of the pandemic subsides, the economy should continue to return to pre-COVID-19 levels. Although the consensus view is that this transition should take hold in the second half of 2022, the precise timing and extent of the economic rebound is difficult to predict. In the coming year, attracting sufficient human resources, in a challenging labor market, will be a top priority. To be recognized as an employer of choice, flexible work arrangements and employee training and development programs will be relied upon and modified as required.

The Company is committed to a transformation towards a carbon-neutral footprint, while providing an unmatched offering of products and services that help protect and extend the shelf life of food and other products. This transition is also vital for our business partners as they move towards the achievement of their sustainable packaging targets. The roadmap to sustainable product offerings is constantly expanding for both rigid and flexible packaging. New technology has been commercialized within the modified atmosphere packaging operations that opens many opportunities for reusable/recycle-ready high-barrier thermoforming films and spouted pouches. Going forward, additional capital resources will be allocated to enhancing and broadening Wapak's technical expertise and capabilities to expand its growing product portfolio of sustainable packaging.

In 2021, sales volumes accelerated by 9.7 percent, the highest annual growth rate achieved by the Company since 2014. Based on current business opportunities and the vibrant North American economy, this momentum should carry forward into 2022. The flexible packaging segment will reap the benefit of new extrusion capacity. The new cast co-extrusion line commercialized in the fourth quarter of 2021 at the modified atmosphere packaging plant will provide the needed capacity for protein and cheese business gains. Additionally, frozen food and spouted pouch packaging will contribute favorably. The new extrusion line at the biaxially oriented nylon facility is slated to be a catalyst for incremental volumes by the second half of 2022. Similarly, robust sales volume growth is expected for the rigid packaging and flexible lidding segment. Both the rigid container and flexible lidding product groups have been awarded further retort pet food and snack food business. With the manufacturing capabilities now in place for injection molded containers and in-mold labels at the Sauk Village, Illinois rigid container site, this endeavor will be a core component of the Company's growth aspirations over the foreseeable future. Due to new pharmaceutical and nutraceutical business, the specialized printed packaging product group will see an uptick in activity in 2022. Subsequent to implementing the Wiicare global healthcare initiative in 2021, new medical packaging opportunities have been secured and the scale of current prospects is promising. Fueled by the substantial order backlog and the greater productive capability of their new facility, the packaging machinery segment should contribute healthy volume growth in the upcoming year.

After rising by 54 percent over the first nine months of 2021, overall resin prices stabilized and started to retreat by the end of 2021 and the majority of the 2021 raw material cost increases have been passed along to customers. Accordingly, gross profit margins began returning to the levels achieved in recent years and are indicative of the Company's optimistic profitability expectations heading into 2022. Current market views are that raw material prices will temporarily rise in the first quarter of 2022 and should then gradually recede over the balance of the year. However, adverse weather conditions and unforeseen supply chain events could put additional upwards pressure on raw material prices and constrain gross profit margins. In addition, resin producers have enacted measures to restrict supply in order to sustain the exceptionally high prices. For all other key cost categories, significant inflationary pressures persisted in 2021, most notably for consumables, freight and distribution, employee compensation and energy expenses. Inflation remains a prime challenge and is not expected to materially subside in 2022. The Company will assess the requirement to pass on these cost increases to its customers in the ensuing year.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Capital expenditures of approximately \$60 to \$70 million are forecast for 2022. The installation of the new biaxially oriented polyamide (BOPA) line in Winnipeg, Manitoba is nearly complete. Extensive pre-production activities will be undertaken in the first half of 2022 and the line is expected to be fully operational by mid-2022. In the upcoming year, printing and laminating converting capacity will be added to the modified atmosphere packaging facility. As new business is awarded, Winkpak is poised to undertake the required building expansions and acquire additional extrusion and converting capacities. The Company remains steadfast with its prime focus being organic growth opportunities, new technologies and expanded product offerings, especially those that promote the core sustainability objectives. Complementary acquisition candidates that align strategically with Winkpak's strengths in sophisticated packaging for food, beverage and healthcare applications, providing a satisfactory economic return for shareholders, will be seriously considered and evaluated. During the latter half of 2021, potential acquisition opportunities started to resurface with greater frequency and should accelerate in 2022.

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 26, 2021 to provide reasonable assurance that the information being disclosed is recorded, summarized and reported as required.



Internal controls over financial reporting

Management is responsible for establishing and maintaining adequate internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. Internal control systems, no matter how well designed, have inherent limitations and therefore can only provide reasonable assurance as to the effectiveness of internal controls over financial reporting, including the possibility of human error and the circumvention or overriding of the controls and procedures. Management used the Internal Control – Integrated Framework published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO 2013) as the control framework in designing its internal controls over financial reporting. Based on management's design 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 26, 2021 to provide reasonable assurance that the financial information being reported is materially accurate. During the fourth quarter ended December 26, 2021, 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 2, 2022.