



## 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 Wapak'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, Wapak 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 February 28, 2023 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 2022, which is available on the Company's website at [www.wipak.com](http://www.wipak.com) or on SEDAR at [www.sedar.com](http://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 53<sup>rd</sup> week every five to six years. The 2022 and 2021 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, pet food, 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	2022	2021	2020
Revenue	1,181.1	1,002.0	852.5
Income from operations	172.3	142.4	146.8
Net income attributable to equity holders of the Company	128.3	103.8	106.3
Gross profit margin	28.1%	27.4%	30.9%
Earnings per share (cents)	197	160	164
<b>Reconciliation of EBITDA</b>			
Net income	128.2	106.3	108.9
Income tax expense	45.9	35.3	38.8
Net finance (income) expense	(1.8)	0.8	(1.0)
Depreciation and amortization	47.7	45.4	44.8
EBITDA	220.0	187.8	191.5



## Highlights

- △ For the second year in a row, the level of revenue achieved represented the highest in the Company's history. Revenue grew by \$179.1 million or 17.9 percent from 2021 to \$1,181.1 million. Revenue growth reflected the significant influence of selling price and mix changes of \$176.6 million.
- △ In dollar terms, gross profit advanced by a remarkable 20.9 percent compared to the prior year whereas sales volume gains were less than 1 percent. The substantial expansion in the spread between selling prices and raw material costs was only somewhat counteracted by the margin contraction attributable to the rate at which sales volumes increased in relation to the rise in manufacturing costs. After escalating by 43.8 percent in 2021, the annual average cost of raw materials purchased by the Company climbed by a further 9.4 percent in 2022. Towards the end of 2022, costs began to recede as additional producer supply became available and the global demand for the Company's key resins declined because of the weakened global economic environment.
- △ Higher personnel and pre-production costs, along with elevated freight and distribution costs, contributed to the heightened operating expenses. In addition, expected credit loss expenses on trade and other receivables were in contrast to the credit loss recoveries recorded in 2021. Overall, these items reduced earnings per share by 26.5 cents.
- △ Net income attributable to equity holders of the Company of \$128.3 million was an all-time high for Winpak, surpassing the 2021 result by 23.6 percent. The exceptional result was largely a function of the sizeable progression in gross profit.
- △ Capital expenditures in 2022 amounted to \$49.1 million, highlighted by spending relating to the injection molded container endeavor, the purchase of land and building next to the Winnipeg, Manitoba modified atmosphere packaging operation and new conversion capacity.
- △ Cash and cash equivalents ended the year at \$398.7 million, an increase of \$21.2 million from the start of the year, despite the net investment increase in working capital of \$116.4 million. The Company generated \$77.6 million in cash flow from operating activities, which was more than sufficient to fund \$49.1 million in capital projects and \$6.0 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 operating activities in 2023. 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. There are no short-term borrowings or long-term debt outstanding.

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### Results of Operations

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

	2022	2021	2020
Organic growth	1.0	15.0	(4.0)
Gross profit margins	62.5	(16.0)	(7.5)
Operating expenses, net finance (income) expense and non-controlling interests	(19.5)	(4.5)	(1.5)
Income taxes	(3.5)	3.5	(0.5)
Foreign exchange	(3.5)	(2.0)	0.5
Total increase (decrease) in EPS (cents)	37.0	(4.0)	(13.0)

#### 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. In 2022, higher sales volumes enhanced EPS by 1.0 cent.

Gross profit margins improved in 2022 as the significant widening in the spread between selling prices and raw material costs was only partially offset by the narrowing stemming from the rise in manufacturing costs in relation to relatively unchanged sales volumes.

Operating expenses vaulted ahead by a much greater rate than sales volumes, dampening EPS by 26.5 cents. Higher net finance income and the level of net earnings attributable to non-controlling interests each had a positive effect on EPS, adding 3.0 cents and 4.0 cents, respectively.

The effective income tax rate surpassed the prior year by 1.4 percentage points, lowering EPS by 3.5 cents.

Foreign exchange had a negative impact of 3.5 cents on EPS versus the previous year. Significantly higher negative translation differences were recorded on the revaluation of Canadian dollar monetary assets and liabilities in the current year. Additionally, losses were realized on foreign exchange contracts in 2022 in contrast to the gains that were recorded in 2021. These occurrences were only partially mitigated by the Company's Canadian dollar transactions being translated at a more beneficial average exchange rate in 2022.

#### Revenue

Revenue Change	Millions of US dollars		
	2022	2021	2020
Volume increase (decrease)	5.8	82.3	(21.4)
Business acquisition	-	-	17.4
Price and mix gains (losses)	176.6	60.4	(16.3)
Foreign exchange (losses) gains	(3.3)	6.8	(1.1)
Total increase (decrease) in revenue	179.1	149.5	(21.4)

For 2022, revenue reached an all-time high of \$1,181.1 million, growing by 17.9 percent from the 2021 level of \$1,002.0 million. Volumes were virtually unchanged, advancing by 0.6 percent. Within the flexible packaging operating segment, volume gains amounted to 4 percent. Growth for the modified atmosphere packaging product group reached 11 percent, fueled by the frozen food packaging business as well as heightened demand for protein and cheese packaging, particularly for customers that supply retail food industries. Conversely, specialty film volumes retreated because of customer loss and the strategic exit from certain low-margin business. Biaxially oriented nylon volumes fell significantly as several key customers altered their order patterns in response to the excess inventory they had accumulated in the prior year as a means to counteract the severe supply chain challenges. The rigid packaging and flexible lidding operating segment volumes receded by 3 percent. For the rigid container product group, lower condiment and specialty beverage shipments caused volumes to decline by 5 percent. The lidding product group experienced a shortage of manufacturing labor throughout 2022, limiting productive capacity. Additionally, severe aluminum foil procurement obstacles prevailed during the first quarter of 2022. Consequently, volumes contracted by 3 percent. Stemming from the nutraceutical packaging business secured during 2021, sizeable volume growth was generated by the specialized printed packaging group. Packaging machinery volumes were essentially equal to the prior year. Selling price and mix changes had a large favorable effect on revenue of 17.6 percent as the substantial overall rise in raw material and other costs over the past 18 months generated much higher selling prices to customers. Foreign exchange had virtually no effect on revenue.

#### Gross profit margins

For the current year, gross profit margins of 28.1 percent of revenue exceeded the 2021 level of 27.4 percent. More importantly, gross profit surged by 20.9 percent from \$274.4 million to \$331.8 million over the same time period while sales volumes expanded by only 0.6 percent. A sizeable increase in EPS of 62.5 cents took place as a result. Selling prices rose to a much larger extent than raw material costs, which included significant aluminum foil transportation costs, raising EPS by 94.0 cents. During 2021, on account of the inherent delay prescribed within formal customer price indexing programs, raw material costs escalated much greater than the related selling price adjustments. The opposite dynamic took place in 2022. Additionally, since the final quarter of 2021, a series of inflationary selling price increases have been enacted to combat the growth in operating expenses. Compared to 2021, the rate of acceleration of fixed manufacturing overheads exceeded the muted rate of sales volume growth, tempering EPS by 31.5 cents.



Wipac's average raw material index, which represents the weighted cost of the Company's eight primary raw materials, rose by 9.4 percent from the 2021 average. The change in raw material pricing varied amongst the different raw materials. Nylon resin advanced by 40 percent and aluminum foil increased by 30 percent. In contrast, polypropylene resin recorded a decrease of 24 percent.

#### Raw Material Index

	2022	2021	2020
Increase (decrease) in index compared to prior year	9.4%	43.8%	(7.9%)

#### Expenses

For the 2022 fiscal year, operating expenses, adjusted for foreign exchange, advanced at a rate of 18.2 percent in comparison to the 0.6 percent expansion in sales volumes, subtracting 26.5 cents from EPS. Heightened freight and distribution costs, in combination with higher personnel and expected credit loss expenses, were the key variables leading to the rise in operating expenses. Furthermore, pre-production costs, which related mainly to the commercialization of the new biaxially oriented polyamide (BOPA) line, were significant.

#### Foreign Exchange

	2022	2021	2020
Year-end exchange rate of CDN dollar to US dollar	0.736	0.781	0.778
Year-end exchange rate of US dollar to CDN dollar	1.359	1.281	1.285
(Depreciation) appreciation of CDN dollar vs. US dollar year-end exchange rate compared to the prior year	(5.8%)	0.4%	1.7%
Average exchange rate of CDN dollar to US dollar	0.771	0.796	0.743
Average exchange rate of US dollar to CDN dollar	1.297	1.256	1.345
(Depreciation) appreciation of CDN dollar vs. US dollar average exchange rate compared to the prior year	(3.1%)	7.1%	(1.2%)

Wipac utilizes the US currency as both its reporting and functional currency. However, with approximately 65 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 a negative impact on EPS of 3.5 cents in 2022 compared to the prior year. Approximately 11 percent of revenues and 18 percent of costs in the current year were denominated in Canadian dollars. The net outflow of Canadian dollars exposes Wipac 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 2022 of 3.1 percent increased EPS by 2.0 cents compared to 2021. As part of the Company's hedging program to manage this risk, the foreign exchange contracts that matured during 2022 were at a less advantageous average exchange rate, generating foreign exchange losses. In the prior year, foreign exchange gains were incurred on these financial instruments and the relative change decreased EPS by 3.0 cents. Additionally, translation differences, which arise when Canadian dollar monetary assets and liabilities are translated at exchange rates that change over time, subtracted 2.5 cents from EPS in the current year in comparison to 2021.

#### Summary of quarterly results

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

Quarter ended	2022			Quarter ended	2021		
	Revenue	Net income*	EPS		Revenue	Net income*	EPS
March 27	275,982	33,870	52	March 28	224,806	24,495	38
June 26	310,254	33,671	52	June 27	243,969	28,520	44
September 25	302,532	29,567	45	September 26	254,166	20,762	32
December 25	292,365	31,235	48	December 26	279,053	30,031	46
	1,181,133	128,343	197		1,001,994	103,808	160

\*attributable to equity holders of the Company

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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. During the second half of 2021 and throughout 2022, selling prices increased significantly as a result of the pass-through of higher raw materials to customers on formal contractual price indexing arrangements. Furthermore, a sequence of non-contractual, inflationary selling price adjustments were implemented over the same time horizon. Sales volumes in the first quarter of 2022 were tempered as the surge in COVID-19 infections limited the availability of labor, which lowered the Company's productive capacity. Additionally, supply chain disruptions were prevalent in the first quarter of 2022, most notably for aluminum foil, restraining sales volumes. During the third and fourth quarters of 2022, sales volumes were negatively impacted by the loss of business as well as customers unwinding the exceptional inventory levels that were established over the preceding 18 months to address the unstable supply chain environment.

### Cash Flow, Liquidity and Capital Resources

At December 25, 2022, Winpak's cash and cash equivalents balance totalled \$398.7 million, an increase of \$21.2 million from the prior year-end. This reflected cash provided by operating activities of \$77.6 million less disbursements for investing activities of \$49.5 million and financing activities of \$6.9 million.

#### *Operating activities*

Cash from operating activities was \$77.6 million. Cash generated from operating activities before changes in working capital reached \$221.2 million, an increase of \$35.2 million from 2021. Additions to working capital amounted to \$116.4 million. Inventory balances climbed by \$101.1 million mainly as a result of the substantial increase in aluminum foil inventories and to a lesser extent, due to the offering of customer inventory programs to help mitigate the unprecedented supply chain challenges. Trade and other receivables expanded by \$26.2 million following the growth in revenue in the final quarter of the year relative to the fourth quarter of 2021. Largely due to higher inventory balances, trade payables and other liabilities advanced by \$10.6 million. Income tax payments were \$26.8 million, \$7.7 million greater than the previous year as the higher taxable income raised the required income tax installments.

#### *Investing activities*

Investing activities in the current year totalled \$49.5 million, of which property, plant and equipment additions represented \$49.1 million. The major expenditures included the acquisition of land and building adjacent to the Winnipeg, Manitoba modified atmosphere packaging facility to accommodate future expansion endeavors and to reduce the reliance on outside warehousing. Furthermore, new conversion capacity was added to the modified atmosphere packaging plant and the next phase of the injection molded container initiative at the Sauk Village, Illinois rigid container site commenced. Over the long term, Winpak's expenditures for maintaining the existing equipment's capabilities have averaged approximately 2 percent of revenue.

#### *Financing activities*

Financing activities in 2022 included dividends to common shareholders of \$6.0 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 return on investment 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 2023 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.



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 2022, certain foreign currency forward contracts matured and the Company realized pre-tax foreign exchange losses of \$1.1 million. As at December 25, 2022, the Company had US to CDN dollar foreign currency forward contracts outstanding with notional amounts of \$45.0 million. The pre-tax unrealized foreign exchange loss on these contracts of \$1.3 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 one to six-month time lag. For 2022, 74 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 25, 2022, 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*	7,061	1,354	2,401	1,265	2,041
Purchase obligations	31,061	31,061	-	-	-
Total contractual obligations	38,122	32,415	2,401	1,265	2,041

\*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 amendments came into effect commencing in the Company's 2022 fiscal year:

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 were implemented with retrospective application, effective December 27, 2021. The amendments had no impact on the Company's consolidated financial statements.

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 were implemented, effective December 27, 2021. The amendments had no impact on the Company's consolidated financial statements.

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### *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 25, 2022 as their effective dates fall within annual periods beginning subsequent to the current reporting period: "Deferred Taxes Related to Assets and Liabilities Arising from a Single Transaction (Amendments to IAS 12)" and "Lease Liability in a Sale and Leaseback (Amendments to IFRS 16)".

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.

In September 2022, the IASB issued "Lease Liability in a Sale and Leaseback (Amendments to IFRS 16)", that requires a seller-lessee to subsequently measure lease liabilities arising from a leaseback in a way that it does not recognize any amount of the gain or loss that relates to the right of use it retains. The amendments are effective for annual reporting periods beginning on or after January 1, 2024 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 2024.

### Looking Forward

Winpak is currently well positioned to build upon the record-setting revenue and profitability levels achieved in 2022 in both the upcoming year and over the long-term.

Central banks raised interest rates aggressively during 2022 and by the fourth quarter, the rate of inflation declined from the peak experienced earlier in the year. Throughout 2023, it is forecast that the rate of inflation will decline considerably. This expectation, in addition to the continued easing of global supply chain disruptions, the resilience of consumer consumption in the United States and the favorable shift in COVID-19 policies in China, has improved the economic outlook for the upcoming year in relation to projections made in the final two quarters of 2022.

As new production capacity becomes available in 2023, business gains will be sought by the modified atmosphere packaging, biaxially oriented nylon and rigid container product groups. Additionally, both the rigid container and flexible lidding product groups will benefit from gains in retort pet food and snack food activity. New nutraceutical and pharmaceutical business has been awarded to the specialized printed packaging product group. Overall, the challenges faced in 2022 regarding supply chain and availability of labor will persist again in 2023 but are expected to moderate. On the other hand, indications are that customers will continue to significantly reduce the abnormally high level of inventories that was built up in the preceding year, reducing demand for the Company's products. This headwind is projected to have a more profound influence on the first half of 2023. Taking the above factors into account, Winpak expects sales volume growth in 2023 to moderately outpace the 0.6 percent increase achieved in 2022.

After experiencing tremendous volatility in 2021, and to a lesser extent in 2022, current market views are for raw material costs to be relatively stable throughout the upcoming year in relation to the prices in effect at the start of 2023. Falling energy prices and weaker economic conditions are putting downward pressure on raw material costs. In response, suppliers have curtailed supply in order to maintain the current pricing levels to the extent possible. During the first half of 2023, Winpak should benefit from the notable drop in raw material costs that took place in the fourth quarter of 2022 as the pass-through of these declines to customers with selling price indexing agreements are estimated to be delayed by an average of four months. Although inflationary forces have begun to abate, the rate of inflation is still well above historical norms. In addition, the limited availability of labor resources will put further pressure on the Company's cost structure. Rising costs will likely dampen profitability as the ability to implement additional selling price increases will be limited given the large cumulative adjustments already put into effect over the past two years.

Capital spending for the upcoming year is anticipated to be significantly higher than the 2022 level and is forecast to be in the range of \$80 to \$90 million. Extensive pre-production activities relating to the installation of the new BOPA line in Winnipeg, Manitoba were undertaken during 2022 and it is currently projected that the line will be fully operational by the fourth quarter of 2023. In the second half of 2023, new co-extrusion modified atmosphere packaging and injection molded rigid container capacity will become available and contribute favorably to the Company's growth aspirations, including the strategy to enter adjacent product markets. At two of its main production facilities, Winpak is also poised to undertake sizeable building expansions and acquire additional extrusion capacity. As a complement to this robust, internal capital spending plan, acquisition candidates will be considered and evaluated when they align strategically with the Company's strengths in sophisticated packaging for food, beverage and healthcare applications and provide a satisfactory economic return for shareholders.

### 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 25, 2022 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 25, 2022 to provide reasonable assurance that the financial information being reported is materially accurate. During the year ended December 25, 2022, 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](http://www.winpak.com) or SEDAR at [www.sedar.com](http://www.sedar.com), including the Annual Information Form dated February 28, 2023.