

AUDIT COMMITTEE'S REPORT

The accompanying financial statements of Richards Packaging Income Fund (the "Fund") and Management's Discussion and Analysis included in this Annual Report have been prepared by management and approved by the Board of Trustees of the Fund. The financial statements were prepared in accordance with International Financial Reporting Standards and, where appropriate, reflect management's best estimates and judgments. Management is responsible for the accuracy, integrity and objectivity of the consolidated financial statements within reasonable limits of materiality and for the consistency of financial data included in the text of the Annual Report dated March 7, 2024.

Management, in discharging these responsibilities, maintains a system of internal controls designed to provide reasonable assurance that its assets are safeguarded, only valid and authorized transactions are executed and accurate, timely and comprehensive financial information is prepared.

The Fund's Audit Committee is comprised of trustees who are neither employees nor officers of the Fund. The Audit Committee meets with management as well as with the external auditors to satisfy itself that management is properly discharging its financial reporting responsibilities and to review the consolidated financial statements and the Auditors' Report. The external auditors have direct access to the Audit Committee of the Board of Trustees.

The financial statements have been independently audited by PricewaterhouseCoopers LLP on behalf of the Unitholders, in accordance with Canadian generally accepted auditing standards. The Auditor's Report outlines the nature of their audit and expresses their opinion on the financial statements of the Fund.

"Susan Allen"
Chair – Audit Committee

"Enzio Di Gennaro"
Chief Financial Officer,
Richards Packaging Inc.

Toronto, Ontario
March 7, 2024



Independent auditor's report

To the Unitholders of Richards Packaging Income Fund

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Richards Packaging Income Fund and its subsidiaries (together, the Fund) as at December 31, 2023 and 2022, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS Accounting Standards).

What we have audited

The Fund's consolidated financial statements comprise:

- the consolidated statements of net income and comprehensive income for the years ended December 31, 2023 and 2022;
- the consolidated statements of financial position as at December 31, 2023 and 2022;
- the consolidated statements of changes in equity for the years then ended;
- the consolidated statements of cash flows for the years then ended; and
- the notes to the consolidated financial statements, comprising material accounting policy information and other explanatory information.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Fund in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2023. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.



Key audit matter

Valuation of Inventory

Refer to note 2 – Material accounting policy information, note 5 – Expenses by nature, note 9 – Inventory and note 19 – Financial instruments to the consolidated financial statements.

As at December 31, 2023, the Fund held inventory of \$71.3 million, net of inventory provisions for slow moving inventory of \$10.2 million. The Fund's inventory is valued at the lower of cost and net realizable value.

Management applies significant judgment and makes assumptions in estimating its slow moving inventory provisions and in determining the net realizable value of inventory based on the consideration of a variety of factors, including aging, recent sales and market demand.

We considered this a key audit matter due to the magnitude of the inventory balance, the audit effort involved in testing the inventory balance and the significant judgment by management in determining the slow moving inventory provisions.

How our audit addressed the key audit matter

Our approach to addressing the matter included the following procedures, among others:

- Tested how management estimated the slow moving inventory provisions in determining the net realizable value of inventory, which included the following:
 - Tested the data used by management in determining the inventory provisions and recalculated the mathematical accuracy of the inventory provisions.
 - Evaluated the appropriateness of the Fund's inventory provisioning method.
 - Evaluated the reasonableness of assumptions based on the factors used by management, including aging, recent sales and market demand, by:
 - considering the appropriateness of the aging of inventory balances by testing a sample of inventory items to purchase invoices;
 - assessing recent sales and market demand by reviewing a sample of sales invoices for transactions that occurred during the year and subsequent to year-end; and
 - discussing with management, including inventory personnel, to understand and corroborate the assumptions made by management in determining the inventory provisions.
- Tested that inventory at year-end was recorded at the lower of cost and net realizable value by comparing a sample of inventory items to their most recent sales price as applicable.

Other information

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis and the information, other than the consolidated financial statements and our auditor's report thereon, included in the annual report.



Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS Accounting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Fund's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.



- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Fund to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Sarah Dobenko.

/s/PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Ontario
March 7, 2024

STATEMENT OF NET INCOME AND COMPREHENSIVE INCOME

For the years ended December 31

[Consolidated]

<i>Cdn\$ thousands, unless otherwise noted</i>	Notes	2023	2022
Revenue	4	425,927	446,896
Cost of sales	5	347,820	367,645
Gross profit		78,107	79,251
Administrative expenses	5	22,366	21,737
Contingent consideration revaluation	3	—	1,631
Profit from operations		55,741	55,883
Financial expenses	15	4,894	4,224
Exchangeable shares	16		
Mark-to-market gain		(4,051)	(8,501)
Distributions		787	931
Share of loss (income) - Vision	18	106	(126)
Income tax expense (income)	6		
Current taxes		15,023	15,132
Deferred taxes		89	(949)
		15,112	14,183
Net income		38,893	45,172
Basic income per Unit	16	\$3.55	\$4.12
Diluted income per Unit	16	\$3.12	\$3.29
Other comprehensive (loss) income <i>(subsequently recyclable to Net income)</i>			
Currency translation adjustment - Richards US		(1,621)	7,515
Comprehensive income		37,272	52,687

The accompanying notes are an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION

As at December 31

[Consolidated]

<i>Cdn\$ thousands</i>	Notes	2023	2022
ASSETS			
Current Assets			
Cash	7	8,116	5,445
Accounts receivable	8	54,184	57,334
Inventory	9	71,280	97,770
Prepaid expenses and deposits	10	9,008	9,977
		142,588	170,526
Long-term Assets			
Leases	12	31,650	32,733
Plant and equipment	13	4,638	4,970
Investment - Vision	18	619	725
Intangible assets	14	26,515	27,754
Goodwill	14	112,193	113,183
		175,615	179,365
		318,203	349,891
LIABILITIES & EQUITY			
Current Liabilities			
Accounts payable and accruals	11	67,741	63,464
Income tax (receivable) payable		(577)	2,138
Distributions payable	16	1,256	1,256
Due to previous shareholders	3	1,042	1,068
Exchangeable shares	16	15,870	19,921
		85,332	87,847
Long-term Liabilities			
Revolving and term debt	15	18,022	64,817
Lease obligations	11,12	28,466	29,564
Deferred income taxes	6	6,235	6,163
		52,723	100,544
Equity			
Unitholders' capital	16	—	—
Retained earnings		163,304	143,035
Accumulated other comprehensive income		16,844	18,465
		180,148	161,500
		318,203	349,891
Contingencies	20		

The accompanying notes are an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

For the years ended December 31

[Consolidated]

<i>Cdn\$ thousands</i>	Notes	Unitholders' capital	Retained earnings	AOCI ^{a)}	Equity
December 31, 2021		—	119,883	10,950	130,833
Comprehensive income			45,172	7,515	52,687
Distributions	16		(22,020)		(22,020)
December 31, 2022		—	143,035	18,465	161,500
Comprehensive income (loss)			38,893	(1,621)	37,272
Distributions	16		(18,624)		(18,624)
December 31, 2023		—	163,304	16,844	180,148

a) AOI - Accumulated other comprehensive income reflects the cumulative translation adjustment of Richards US.

The accompanying notes are an integral part of these financial statements.

STATEMENT OF CASH FLOWS

For the years ended December 31

[Consolidated]

<i>Cdn\$ thousands</i>	Notes	2023	2022
OPERATING ACTIVITIES			
Profit from operations		55,741	55,883
Add items not involving cash			
Plant, equipment & lease depreciation	<i>12,13</i>	9,264	9,701
Gain on leases	<i>12</i>	(360)	(385)
Intangible assets amortization	<i>14</i>	2,382	2,686
Contingent consideration revaluation	<i>3</i>	—	1,631
Income tax payments		(17,738)	(13,891)
Dividends - Vision	<i>18</i>	—	90
Changes in working capital	<i>21</i>	33,899	(15,407)
Cash provided by operating activities		83,188	40,308
INVESTING ACTIVITIES			
Due to previous shareholders	<i>3</i>	—	(49,533)
Additions to plant and equipment	<i>13</i>	(1,482)	(856)
Additions to computer software	<i>14</i>	(1,231)	(662)
Cash used in investing activities		(2,713)	(51,051)
FINANCING ACTIVITIES			
Proceeds from debt for acquisition	<i>3,15</i>	—	53,000
Repayment of revolving & term debt	<i>15</i>	(47,000)	(11,000)
Lease payments	<i>12,15</i>	(8,707)	(8,693)
Financial expenses paid (excluding leases)	<i>15</i>	(3,060)	(2,758)
Distributions paid to Exchangeable Shareholders	<i>16</i>	(787)	(931)
Distributions paid to Unitholders	<i>16</i>	(18,624)	(22,020)
Cash (used in) provided by financing activities		(78,178)	7,598
NET CASH FLOW		2,297	(3,145)
Cash, beginning of year	<i>7</i>	5,445	8,420
Foreign exchange effect		374	170
Cash, end of year	<i>7</i>	8,116	5,445

The accompanying notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS

December 31, 2023 and 2022

[Cdn\$ thousands unless otherwise noted]

1. FORMATION OF THE FUND

Richards Packaging Income Fund [the “Fund”] is an open-ended, limited purpose trust established under the laws of the Province of Ontario, Canada by a Declaration of Trust dated February 26, 2004. The Fund completed an initial public offering of trust Units [the “Units”] on April 7, 2004, through the Toronto Stock Exchange, to facilitate the acquisition of Richards Packaging Inc.

2. MATERIAL ACCOUNTING POLICY INFORMATION

Financial statements of the Fund have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board [“IFRS Accounting Standards”]. The measurement basis used was the historic cost convention, except for exchangeable shares which are measured at fair value. Accounting policies utilized under IFRS Accounting Standards are consistent with those previously applied. Material accounting policy information is summarized as follows:

Reclassification

Certain comparative figures have been reclassified to conform to the current year presentation. Specifically, the credit card fees of \$2,844 previously presented within financial expenses have been reclassified to cost of sales on the statement of net income and comprehensive income, impacting profit from operations and financial expenses paid (excluding leases) within the statement of cash flows.

Principles of consolidation

The financial statements include the accounts of the Fund and its investments, Richards Packaging Holdings Inc. and Richards Packaging Holdings 3 Inc. [“Richards Canada”], Richards Packaging Holdings 2 Inc. [“Richards US”] and their wholly owned subsidiaries together are referred to as “Richards Packaging”. The wholly owned subsidiaries of Richards Canada include Richards Packaging Inc., Clarion Medical Technologies Inc. [“Clarion”] and its wholly owned subsidiaries and Healthmark Services Ltd. [“Healthmark”]. The wholly owned subsidiaries of Richards US include Richards Packaging Holdings (US) Inc., Richards Packaging, Inc., The E.J. McKernan Company and McKernan Packaging - Richards de Mexico, S.A. de c.v. [“McKernan”]. Vision Plastics Inc. [“Vision”], which is jointly controlled and accounted for under the equity method, is a plastic container manufacturing plant located in Vancouver, British Columbia, Canada.

Foreign currency translation

The Canadian dollar is the functional currency for the Fund and its Canadian investments, except for Richards US for which accounts in foreign currencies have been translated into Canadian dollars. Monetary items are recorded at exchange rates in effect at the statement of financial position dates and non-monetary items are recorded at the exchange rates in effect on the date of the transactions. Revenue and expenses are recorded at average monthly exchange rates prevailing during the year. Gains and losses arising in Richards Canada from foreign currency translations are included in profit from operations.

Richards US has a US dollar functional currency. Assets and liabilities are translated at exchange rates in effect on the statement of financial position dates. Revenue and expenses are translated at average monthly exchange rates prevailing during the year. Effects of translation are recorded through other comprehensive income (loss) and included in equity as accumulated other comprehensive income. Upon any future sale of Richards US, the cumulative translation gain will be recycled to the Statement of Net Income to form part of the overall gain or loss on disposal.

NOTES TO FINANCIAL STATEMENTS

December 31, 2023 and 2022

[Cdn\$ thousands unless otherwise noted]

Use of estimates

Preparation of financial statements required management to make estimates and assumptions which affect reported amounts of assets, liabilities, revenue and expenses. By their nature, these estimates are subject to measurement uncertainty and are reviewed periodically. Any adjustments deemed necessary are made prospectively in the period in which they are identified. Management believes that the expected credit losses, reserve for slow moving inventory, our view of one reporting segment and the testing for impairment of goodwill, intangibles and trademarks are accounting estimates that involve significant judgment and complexity.

Revenue

Revenue is recognized when control of the goods and services to be delivered is transferred to the customer. In the case of sale of goods purchased for resale this is upon shipment and in the case of sale of capital goods this is when implementation and training are complete. Revenue associated with the sale of maintenance and warranty service plans on capital goods is recognized on a straight-line basis over the contractual period. Revenue is measured at the best estimate of the amount to be received under the contract, net of any payments to customers including discounts, trade allowances and rebates.

Income taxes

Income taxes are accounted for utilizing the liability method, with current taxes reflecting the expected income tax payable for the year and any adjustments in respect of amounts owing from previous years. Deferred tax assets and liabilities are determined based on temporary differences between the carrying values and the tax bases of assets and liabilities at substantively enacted tax rates that will be in effect when these differences are expected to reverse. Deferred tax assets are recognized only to the extent that it is probable that the assets will be realized.

Inventory

Inventory is valued at the lower of cost and net realizable value. Cost of inventory includes purchase price plus inbound freight for distributed products and direct variable costs and related production overheads for manufactured products, determined on a first-in, first-out basis except at McKernan where weighted average is used. If the carrying value exceeds the net realizable value a write-down is recognized. Future demand, inventory aging and prevailing demand in local markets is monitored on a product-by-product basis to record a reserve for slow moving inventory.

Leases

Leases are treated as “right of use assets” which requires that the present value of lease payments be recognized utilizing Richards Packaging’s incremental borrowing rate as the discount rate. Leased assets are depreciated on a straight-line basis over the expected terms of the leases. Lease payments reduce lease obligations after adjusting for implied financial expenses calculated utilizing the effective interest method. Lease terms include extension options as management is reasonably certain to exercise them in due course and exclude any residual value. There are no onerous or low value leases. Short term leases continue to be treated as operating in nature.

NOTES TO FINANCIAL STATEMENTS

December 31, 2023 and 2022

[Cdn\$ thousands unless otherwise noted]

Plant and equipment

Plant and equipment are initially recorded at cost. Repairs and maintenance are charged to income as incurred. Depreciation is computed over the remaining estimated useful lives as outlined below:

Manufacturing equipment	straight-line over 7 years
Moulds	straight-line over 4 years
Computer equipment	30% diminishing balance
Warehouse and office equipment	20% - 33.3% diminishing balance
Leasehold improvements	straight-line over lease term

Business combinations, Intangible assets and Goodwill

The purchase method of accounting is utilized at the date of an acquisition whereby all identifiable assets and liabilities are recorded at their fair values. Intangible assets with a finite life are recorded at cost and are amortized on a straight-line basis over the period of expected future benefit. Customer relationships and contracts are valued using the multi-period excess earnings method and are amortized over 10 to 15 years and computer systems software is amortized over 5 years. Trademarks are valued using the relief from royalty method and have indefinite lives therefore are not amortized. These methods require the use of discounted cash flow models. At the acquisition date, goodwill is recorded at the excess of the purchase price of an acquired business over fair value of the net assets acquired.

Impairment testing of long-term assets

Long-term assets are reviewed for impairment when events or changes in circumstances indicate that carrying values may not be recoverable. For purposes of evaluating recoverability, a test is performed using discounted future net cash flows. When performing the goodwill impairment assessment, management assesses this on an overall level as a result of there being only one operating segment identified. Should impairment exist, the loss would be measured as the difference between the carrying value and the recoverable amount and recognized as an additional current period charge. Management has not identified any such impairment losses to date. Trademarks are reviewed for impairment annually. Management monitors goodwill for the entire organization, a group of cash-generating units, and performs an impairment test annually.

Exchangeable shares

Exchangeable shares are classified as debt and carried at fair value based upon the year end trading price of Units into which they are convertible [note 16]. Mark-to-market changes in value along with distributions are expensed during the year.

3. ACQUISITION & DUE TO PREVIOUS SHAREHOLDERS

Included in due to previous shareholders is a U.S.\$788 non-interest bearing demand loan. Contingent consideration associated with the Clarion acquisition of \$49,533 was paid on March 31, 2022.

4. REVENUE & SEGMENTED INFORMATION

Richards Packaging's operations consist of one reporting segment, principally the distribution of packaging for cosmetics, healthcare, food, beverage and other products. Geographic information is provided below determined based on the country of sales origination. No customer represents more than 5% of total revenue.

NOTES TO FINANCIAL STATEMENTS

December 31, 2023 and 2022

[Cdn\$ thousands unless otherwise noted]

	Canada		United States	
	2023	2022	2023	2022
By geography				
Revenue	275,456	276,634	150,471	170,262
Long-term assets	100,241	105,130	75,374	74,235

Revenue has been disaggregated by end user based on markets that are subject to different economic conditions as follows:

	2023	2022
Revenue by end market		
Cosmetics	83,591	84,186
Healthcare ^{a)}	211,588	198,550
Food, beverage and other	130,748	164,160
	425,927	446,896

a) Healthcare includes \$11,901 [2022 \$11,232] of revenue recognized over time from the sale of maintenance & warranty service plans and \$42,431 [2022 \$38,828] sales of capital goods.

5. EXPENSES BY NATURE

	2023	2022
Salaries and wages	35,531	34,914
Benefits	7,866	7,397
Bonuses	4,245	5,012
Long-term incentive plan	220	30
Employee compensation	47,862	47,353
Inventory sold and services provided	262,382	278,099
Inventory provisions	2,854	925
Selling, distribution and other costs	41,115	45,196
Depreciation and amortization	11,646	12,387
Credit card fees	3,129	2,844
Lease expenses	1,102	1,470
Foreign currency (gain) loss	96	1,108
Cost of sales and administrative expenses	370,186	389,382

Management is eligible to participate in the long-term incentive plan [the "LTIP"]. Awards for the cash reimbursement of Units purchased under the LTIP will vest over a three-year period, with one-third of the award vesting each year. The Trustees committed to annual funding of \$200 for three years starting in 2021. Total salaries and benefits for executive officers was \$987 [2022 – \$831]. Trustee/Directors are eligible to participate in a deferred share unit ("DSU") plan where they may elect to receive their annual fees in DSU's. Amounts deferred under the DSU plan and accrued distributions earned thereon vest immediately, are accrued at \$545 [2022 – \$383] and can be redeemed only when the DSU plan participant ceases to serve.

NOTES TO FINANCIAL STATEMENTS

December 31, 2023 and 2022

[Cdn\$ thousands unless otherwise noted]

6. INCOME TAXES

Income tax expense differs from the amount computed at statutory rates due to the various adjustments outlined below:

	2023	2022
Profit from operations	55,741	55,883
Financial expenses	(4,894)	(4,224)
Contingent consideration revaluation	—	1,631
Income subject to income taxes	50,847	53,290
Statutory tax rate	26.3%	26.4%
Income tax expense at statutory tax rate	13,371	14,051
Deferred income taxes	(89)	949
Current period adjustments		
Refundable dividend tax	—	(1,529)
Unit redemption in excess of paid up capital	—	737
Foreign rate differential	6	86
Withholding tax	1,669	802
Other items	66	36
Current income taxes	15,023	15,132

Unremitted earnings in Richards US as of December 31, 2023 of US\$42,100 is permanently reinvested and therefore the associated withholding tax is not recognized.

	2023	expense/	additions/	2022	expense/	additions/	2021
		(income)	f/x ^{b)}		(income)	f/x ^{b)}	
Deferred tax liabilities							
Customer relationships ^{a)}	3,696	(504)	0	4,200	(708)	10	4,897
Patents and trademarks ^{a)}	2,961	—	(27)	2,988	—	74	2,914
Plant and equipment	1,427	298	(21)	1,150	(136)	67	1,219
Other	(74)	(75)	—	1	(3)	—	5
Deferred tax assets							
Loss carryforward for tax	—	—	—	—	—	—	—
Leases	(975)	33	17	(1,025)	(70)	(44)	(911)
Working capital	(800)	337	14	(1,151)	(32)	(46)	(1,073)
	6,235	89	(17)	6,163	(949)	61	7,051

a) Reversal of intangible assets will not give rise to income taxes.

b) f/x = foreign exchange differences

NOTES TO FINANCIAL STATEMENTS

December 31, 2023 and 2022

[Cdn\$ thousands unless otherwise noted]

7. CASH

	2023	2022
Cash at bank ^{a)}	9,694	7,749
Issued and outstanding cheques	(1,578)	(2,304)
	8,116	5,445

a) represents cash clearing accounts at various branches which are netted on an overall basis

8. ACCOUNTS RECEIVABLE

	2023	Expected	2022	Expected
	\$	Loss %	\$	Loss %
Current	33,541	0.1%	35,861	0.1%
31 – 60 days past due	14,484	0.1%	14,476	0.2%
61 – 90 days past due	2,676	0.1%	1,268	1.2%
Over 90 days past due	4,676	28.7%	6,399	35.6%
Trade receivables	55,377	2.5%	58,004	4.1%
Expected credit losses ^{a)}	(1,388)		(2,367)	
Supplier rebates	195		1,697	
	54,184		57,334	

a) Management reassessed expected credit losses and recognized new provisions of \$33 [2022 – \$578] and wrote off \$1,011 [2022 – \$135]. The remaining non-cash change in the accounts receivable reflects foreign exchange differences.

9. INVENTORY

	2023	2022
Goods purchased for resale	76,551	103,138
Goods in transit	3,713	2,762
Manufacturing raw materials	484	729
Manufactured finished goods	701	1,361
Reserve for slow moving inventory ^{a)}	(10,169)	(10,220)
	71,280	97,770

a) Management recorded a reserve for slow moving inventory of \$2,854 [2022 – \$925], and recognized write-offs of \$1,360 [2022 – \$1,397]. In addition, \$1,545 was written down to net realizable value. The remaining non-cash change in inventory provision reflects foreign exchange differences.

NOTES TO FINANCIAL STATEMENTS

December 31, 2023 and 2022

[Cdn\$ thousands unless otherwise noted]

10. PREPAID EXPENSES AND DEPOSITS

	2023	2022
Deposits for commitment to purchase goods	3,671	3,999
Deferred costs on maintenance contracts	1,448	1,915
Deposits for trade shows, moulds and computer software	1,835	1,648
Rent	848	1,068
Bank interest	99	311
Other deposits	1,107	1,036
	9,008	9,977

11. ACCOUNTS PAYABLE AND ACCRUALS

	2023	2022
Trade payables	43,470	38,756
Customer rebates	1,323	1,437
Staffing expenses ^{a)}	7,931	8,361
Professional fees	1,070	917
Sales tax	1,521	1,432
Deferred revenue on maintenance contracts	3,376	3,662
Lease obligations - current portion	6,687	6,849
Other payables	2,363	2,050
	67,741	63,464

a) Management bonuses of \$3,755 [2022 - \$4,451] included in staffing expenses were fully paid subsequent to year end.

Included in Trade payables is \$450 [2022 – \$245] associated with payables to Vision [note 18].

NOTES TO FINANCIAL STATEMENTS

December 31, 2023 and 2022

[Cdn\$ thousands unless otherwise noted]

12. LEASES AND LEASE OBLIGATIONS

	Property	Computer	Warehouse	Leases	Lease
		equipment	& office		Obligations
December 31, 2021					
Current portion					6,832
Leases and lease obligation	37,799	5	252	38,056	34,505
Additions/acquisitions	1,660	—	—	1,660	1,352
Terminations	(699)	—	—	(699)	(776)
Amortization	(7,546)	(5)	(111)	(7,662)	
Payments, excluding interest					(7,071)
Foreign exchange differences	1,378	—	—	1,378	1,571
December 31, 2022					
Carrying value	61,235	11	519	61,765	
Accumulated amortization	(28,643)	(11)	(378)	(29,032)	
Current portion					6,849
Leases and lease obligation	32,592	—	141	32,733	29,564
Additions/modifications	6,817	—	—	6,817	6,457
Amortization	(7,405)	—	(110)	(7,515)	
Payments, excluding interest					(7,272)
Foreign exchange differences	(493)	—	—	(493)	(445)
December 31, 2023					
Carrying value	67,559	11	519	68,089	
Accumulated amortization	(36,048)	(11)	(488)	(36,547)	
Current portion					6,687
Leases and lease obligation	31,511	—	139	31,542	28,466

The timing of when lease payments come due are as follows:

	2024	2025	2026	2027	2028	beyond
Gross lease payments	8,521	7,184	7,150	6,775	5,382	4,492

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13. PLANT AND EQUIPMENT

	Manufacturing Equipment	Moulds	Warehouse & office	Computer equipment	Leaseholds	Total
December 31, 2021						
Carrying value	2,115	3,555	2,340	985	1,636	10,631
Accumulated Depreciation	(1,430)	(2,328)	(546)	(258)	(76)	(4,638)
Net book value	685	1,227	1,794	727	1,560	5,993
Additions	248	137	481	57	61	984
Fully depreciated assets	(128)	—	(9)	—	—	(137)
Depreciation	(225)	(980)	(314)	(90)	(430)	(2,039)
Foreign exchange differences	(81)	89	(6)	25	5	32
December 31, 2022						
Carrying value	2,154	3,781	2,806	1,067	1,702	11,510
Accumulated Depreciation	(1,527)	(3,308)	(851)	(348)	(506)	(6,540)
Net book value	627	473	1,955	719	1,196	4,970
Additions	34	256	875	259	58	1,482
Fully depreciated assets	—	(782)	—	—	—	(782)
Depreciation	(220)	(454)	(464)	(198)	(413)	(1,749)
Foreign exchange differences	(38)	—	(21)	(6)	—	(65)
December 31, 2023						
Carrying value	2,150	3,255	3,660	1,320	1,760	12,145
Accumulated Depreciation	(1,747)	(2,980)	(1,315)	(546)	(919)	(7,507)
Net book value	403	275	2,345	774	841	4,638

Warehouse & office includes evaluation and service loaner equipment at Clarion.

14. INTANGIBLE ASSETS AND GOODWILL

Intangible assets and Goodwill are not deductible for tax purposes.

Goodwill and trademarks were assessed for impairment by calculating the recoverable amount determined based on their value in use. Five-year cash flow budgets, prepared using growth rates experienced in the industry and approved by the Board, were used with the application of a pre-tax discount rate of 13.0% [2022 – 10.6%]. For periods beyond the budget period, cash flows were extrapolated using long term average growth rates of 3.5% [2022 – 3.0%]. Reasonably possible changes in key assumptions would not cause the recoverable amount to fall below the carrying value.

NOTES TO FINANCIAL STATEMENTS

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[Cdn\$ thousands unless otherwise noted]

	Customer relationships	Trade-marks	Computer software	Intangible assets	Goodwill
December 31, 2021					
Carrying value	36,871	11,333	1,130	49,334	110,485
Accumulated amortization	(19,330)		(515)	(19,845)	
Net book value	17,541	11,333	615	29,489	110,485
Amortization	(2,574)		(112)	(2,686)	
Additions	—	—	662	662	—
Fully amortized intangibles	(13,002)		—	(13,002)	
Foreign exchange differences	12	260	17	289	2,698
December 31, 2022					
Carrying value	24,700	11,593	1,809	38,102	113,183
Accumulated amortization	(9,721)		(627)	(10,348)	
Net book value	14,979	11,593	1,182	27,754	113,183
Amortization	(1,885)		(497)	(2,382)	
Additions	—	—	1,231	1,231	—
Foreign exchange differences	—	(95)	7	(88)	(990)
December 31, 2023					
Carrying value	24,700	11,498	3,047	39,245	112,193
Accumulated amortization	(11,606)		(1,124)	(12,730)	
Net book value	13,094	11,498	1,923	26,515	112,193

15. REVOLVING AND TERM DEBT

Richards Packaging has available revolving debt credit facilities. On June 30, 2023, the credit facilities were amended to create one \$65.0 million revolving credit facility at a cost of \$198 and is available for working capital and future acquisitions. The facility bears interest at the bankers' acceptance borrowing rate plus a margin of 1.25% to 2.00%, [from 0.95% to 1.70%], with maturity to June 30, 2027 and any unused portion bears a standby fee of 20% of the margin. The effective interest rate at December 31, 2023 was 6.1 % [2022 – 3.4%]. Voluntary repayments of debt of \$47,000 [2022 – \$11,000] were made during the year ended December 31, 2023. The revolving credit facility of \$65,000 [2022 – \$65,000] was \$18,000 drawn at December 31, 2023 [2022 – \$53,000].

NOTES TO FINANCIAL STATEMENTS

December 31, 2023 and 2022

[Cdn\$ thousands unless otherwise noted]

Financial expenses for the years ended December 31 were as follows:

	2023	2022
Interest expense	2,632	2,193
Credit facility charges	389	280
Amortization of deferred financing fees	438	129
Lease obligation interest	1,435	1,622
	4,894	4,224

The bank has a first charge over all of Richards Packaging's assets as collateral for the revolving and term credit facilities. Richards Packaging is in compliance with all covenants [note 17].

16. UNITS AND EXCHANGEABLE SHARES

<i>Number outstanding</i>	Units basic	Weighted average	Exchangeable shares	Units diluted	Weighted average
December 31, 2021	10,955,007	11,165,774	463,006	11,418,013	11,628,780
December 31, 2022	10,955,007	10,955,007	463,006	11,418,013	11,418,013
December 31, 2023	10,955,007	10,955,007	463,006	11,418,013	11,418,013

Exchangeable shares mark-to-market gain reflects a unit price decrease during the year ended December 31, 2023 of \$8.75 [2022– \$18.36] to \$34.65 per Unit.

Fund Units

The Declaration of Trust provides that an unlimited number of Units may be issued. Each Unit is transferable and represents an equal undivided beneficial interest in any distributions of the Fund and in the net assets of the Fund. All Units have equal rights and privileges. Each Unit entitles the holder thereof to participate equally in allocations and distributions and to one vote at all meetings of Unitholders for each whole Unit held. The Units issued are not subject to future calls or assessments. Units are redeemable at any time at the option of the holder at amounts related to market prices at the time, subject to a maximum of \$50 in cash redemptions by the Fund in any particular month. The Fund is utilizing the puttable instrument exemption using the criteria in IAS 32, Financial Instruments, Presentation, to classify the Units as equity.

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Unitholders' capital

The components of Unitholders' capital included unit capital and contributed surplus which was returned to unitholders and fully deployed to purchase units for cancellation and.

Exchangeable shares

Exchangeable shares were issued by Richards Packaging to officers on the initial public offering and in connection with two business acquisitions. The exchangeable shares issued by Richards Packaging Holdings Inc. are redeemable and are retractable by the shareholders at any time. A retraction or redemption of exchangeable shares will be paid in Units on a one-for-one basis. Exchangeable shares carry the right to vote at any meeting that Unitholders are entitled to vote on the same basis.

Distributions

Distributions are made monthly to Unitholders of record on the last business day of each month and paid on the 14th day of the following month. Monthly distributions of 11¢ per Unit were paid in 2023 at \$1,205 with a special distribution of 38¢ paid in March 2023 [69¢ March 2022].

Distributions paid to exchangeable shareholders are not subordinated to distributions to Unitholders and are declared on the same basis net of applicable taxes. Distributions are made monthly to shareholders of record on the last business day of each month and paid on or about the 14th day of the following month. Monthly distributions in 2023 were \$51 with a special distribution of \$176 paid in March 2023.[2022 \$319].

17. CAPITAL STRUCTURE

Capital consists of Unitholders' equity, exchangeable shares and secured credit facilities. Capital levels are maintained to meet the following objectives: optimizing the cost of capital at acceptable risk levels while providing an appropriate return to its Unitholders and shareholders; balancing the interests of equity shareholders, exchangeable shareholders and debt holders; maintaining compliance with financial covenants; and preserving financial flexibility to benefit from potential opportunities as they arise. The leverage ratio covenant was not to exceed 2.75 and the ratio at December 31, 2023 was 0.22 [2022 – 0.97]. In addition, the fixed charge coverage ratio covenant was greater than 2.0 times at 4.2 [2022 – 4.8]. The minimum net worth covenant was \$70,000 and the net worth was \$196,018 [2022 – \$181,421].

Management continually assesses the adequacy of its capital structure and makes adjustments in light of changes in economic conditions and the risk characteristics of underlying assets. Adjustments may include changes in distributions, purchases of Units for cancellation pursuant to normal course issuer bids, issues of new shares and/or Units, repayments or borrowings under the credit facilities and refinancing the debt to replace existing debt with different characteristics.

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18. RELATED PARTY TRANSACTIONS AND INVESTMENT - VISION

Richards Packaging entered into the following related party transactions, which were measured at fair value:

	2023	2022
Leases of facilities from entities related to certain officers	686	1,282
Product purchases from Vision	7,014	8,241

Richards Packaging commitments for leases of facilities from entities related to officers of \$0.2 million extend to 2024. Facilities in Streator and Reno were leased from Mr. McKernan who ceased to be an officer in 2023.

Richards Packaging Inc. owns a 50% interest in a joint venture, Vision. The information below reflects the amounts presented in the financial statements of Vision:

	2023	2022		2023	2022
Statement of financial position					
Assets			Liabilities		
Current assets	1,487	1,962	Current liabilities	574	883
Plant and equipment	324	371			
Total assets	1,811	2,333	Net assets	1,237	1,450
Statement of net income					
Revenue				7,014	8,241
Expenses				7,227	7,988
Net (loss) income				(213)	253

The decrease of \$106 [2022 – \$36 increase] in Investment – Vision represents share of net loss of \$106 [2022 – \$126 income] decreased by dividends received of nil [2022 – \$90].

19. FINANCIAL INSTRUMENTS**Fair value**

Cash, accounts receivable, accounts payable and accruals, distributions payable and due to previous shareholders are all short term in nature and are measured at amortized cost, however, their carrying values approximate fair values with no amortization necessary. Revolving debt carrying value approximates fair value as it bears interest at rates comparable to current market rates. Associated financing fees are amortized over the term of the debt. Exchangeable shares fall under Level 1 of the fair value hierarchy and are recorded at the year-end trading price of Units into which they are convertible, with changes in value recorded through net income [note 15].

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Credit risk

Financial assets exposed to credit risk consist primarily of trade receivables arising from the sale of goods. Concentration of credit risk is limited due to the large number of customers and geographical dispersion. As at December 31, 2023 no customer represented 5% or more of accounts receivable or sales.

Credit quality is assessed prior to establishing customer accounts. Management continuously monitors the collection of overdue accounts. For customers with overdue accounts, internal collection staff takes appropriate action, including the placement of accounts on hold, with third party collection or legal action taken. On a quarterly basis, the expected credit losses is reviewed by management. The expected credit losses as at December 31, 2023 is sufficient to cover impaired accounts [note 8].

Inventory obsolescence risk

Richards Packaging is exposed to inventory obsolescence due to customer insolvency when they have unique packaging, maturing product life cycles for stock items and large purchases due to economic order quantities. The inventory provision is assessed on a specific item-by-item basis considering a number of factors including aging, recent sales and market demand. Management continually monitors over-aged inventory with a focus to realize value before obsolescence occurs. On a quarterly basis, the reserve for inventory obsolescence is reviewed by management. The reserve as at December 31, 2023 is sufficient to cover losses due to inventory obsolescence [note 9].

Liquidity risk

The approach to managing liquidity risk is to ensure that sufficient funds are available to meet financial obligations as they come due [notes 11, 20]. This is achieved through a combination of cash balances [note 7], availability of credit facilities [note 15], surplus cash flow from operations, distribution policy and matching the maturities of financial assets and liabilities.

Interest rate risk

Exposure to interest rate risk arises due to variable interest rates on the revolving and term debt credit facilities. A 1.0% movement in interest rates would have impacted net income by \$343.

Foreign currency risk

Exposure to U.S. and Euro currency fluctuations arises on cross-border transactions and on the translation of cash flows of Richards US. A foreign currency gain of \$278 has been recorded for the year ended December 31, 2023 [2022 – \$1,108 loss] relating to cross-border transactions. A 1.0% movement in foreign currency rates would have impacted net income by \$148.

20. CONTINGENCIES

In the ordinary course of business, Richards Packaging is involved in litigation and other claims. It is management's opinion that the ultimate outcome of these matters will not have a material adverse effect on the financial position or operating results.

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21. ADDITIONAL CASH FLOW INFORMATION

The change in working capital excludes cash, income taxes payable, due to previous shareholders and exchangeable shares but consists of the following:

	2023	2022
Accounts receivable	2,816	(5,686)
Inventory	25,586	6,934
Prepaid expenses and deposits	718	3,355
Accounts payable and accruals	4,779	(20,010)
	33,899	(15,407)

For the year ended December 31, 2023, the foreign exchange translation loss excluded from the above was \$928 [2022 – \$4,485 gain].