

## **Q2** QUARTERLY REPORT

### **Richards Packaging Income Fund**

Quarter ended June 30, 2019

#### **Report Contents**

CEO's report to unitholders .....	1
Management's discussion and analysis.....	2
Financial statements .....	11
Notes to financial statements .....	15



## ***Richards Packaging Income Fund***

### **CEO'S REPORT TO UNITHOLDERS**

*July 29, 2019*

---

Richards Packaging has been providing packaging solutions to small-and medium-sized North American businesses since 1912. Over this period Richards Packaging has developed into the leading packaging distributor in Canada, and the third largest in North America, with one of the most diverse product and service offerings available to product marketers.

The 25% tariff on Chinese imports imposed by the US government and implemented in May resulted in significant offsetting impacts to the revenue in the second quarter as the lost revenue from two large customers was offset by the sale of the extra inventory investment to large customers outside our base. Going forward, these large customer losses which are expected to impact us at \$2 mil. per quarter, should be partially offset with organic growth<sup>4</sup>.

Second quarter revenue increased \$5.2 mil., or 6.5%, on 2.8% organic revenue growth and 3.7% currency translation as the dollar weakening by U.S./Cdn. 2.7¢ to 75¢. Adjusted EBITDA<sup>1</sup> was up \$0.6 mil., or 5.0% at 14.4% of sales, mainly due to higher organic growth in our cosmetic packaging segment. Net income increased \$0.5 million, or 4¢ per Unit, mainly due to a \$0.6 million lower mark-to-market loss on the exchangeable shares reflecting a \$5 Unit price increase.

First half results were as expected with revenue growth of \$12.5 mil., or 8.1%, driven by organic growth of 4.1% and a U.S./Cdn. 3.3¢ weakening of the dollar to 75¢. Adjusted EBITDA<sup>1</sup> was up \$1.5 million, or 6.7%, due to higher sales volumes. Net income was down \$1.1 million, or 10¢ per Unit, mainly due to a \$1.1 million higher mark-to-market loss on the exchangeable shares on a \$8 Unit price increase.

The \$4.1 million of free cash flow<sup>2</sup> generated in the second quarter was mainly utilized to settle \$1.3 million of income tax payable from the first quarter and repay \$3.0 million of term debt. The Fund's leverage remains at 0.5x as at June 30th.

The Fund paid monthly distributions of 11¢ per Unit during the second quarter, which represented an annualized yield of 3.1% on the June 30<sup>th</sup> closing price of \$42.91 per Unit. The payout ratio<sup>3</sup> for the second quarter was 49% reflecting higher Adjusted EBITDA.

We appreciate the support of our customers, suppliers, employees and investors and will continue to execute on our commitments with the highest degree of quality, care and integrity.

*"Gerry Glynn"*  
Chief Executive Officer  
Richards Packaging Inc.  
6095 Ordan Drive  
Mississauga, Ontario  
L4T 2M7

July 29, 2019

## Richards Packaging Income Fund

### MANAGEMENT'S DISCUSSION AND ANALYSIS

July 29, 2019

---

This management's discussion and analysis ("MD&A") of Richards Packaging Income Fund for the second quarter should be read in conjunction with the attached condensed interim financial statements dated June 30, 2019, the first quarter report dated April 29, 2019, the 2018 Annual Report and the 2018 Annual Information Form dated March 6, 2019 respectively. Results are reported in Canadian dollars and have been prepared in accordance with International Financial Reporting Standards ("IFRS") on a consistent basis with the 2018 annual financial statements, except as disclosed in the New Accounting Policy.

#### Description of the Business

Richards Packaging serves a wide customer base that is comprised of approximately 14,200 regional food, beverage, cosmetic, healthcare and other companies. The primary source of revenue is from the distribution of over 5,800 different types of packaging components sourced from over 850 suppliers and its three dedicated manufacturing facilities. Sales from these manufacturing facilities represent approximately 8% of the total revenues of Richards Packaging (2018 – 10%).

#### Financial Highlights

This MD&A covers the three and six months ended June 30, 2019 generally referred to in this MD&A as the "second quarter" and the "first half", respectively. The following table sets out selected consolidated financial information:

(\$ thousands)	Qtr. 2		Six months	
	2019	2018	2019	2018
<b>Income Statement Data:</b>				
Revenue.....	85,451	80,273	167,350	154,860
Net income.....	2,990	2,570	7,550	8,675
Diluted per Unit <sup>a)</sup> .....	27.4¢	23.6¢	69.3¢	79.6¢
<b>Financial Position Data:</b>				
Assets.....	238,168	199,373		
Long-term financial liabilities.....	53,604	29,980		
Leverage <sup>b)</sup> .....	0.5	0.7		
<b>Cash Flow Statement Data:</b>				
Distributions.....	3,896	3,892	7,792	7,780
Diluted per Unit.....	33.3¢	33.3¢	66.6¢	66.5¢
Payout ratio <sup>3</sup> .....	49%	50%	50%	51%
Debt repayments.....	3,000	2,500	4,000	3,500

a) anti-dilutive result reverts back to basic income per Unit

b) Term debt/Adjusted EBITDA<sup>1</sup>

## Richards Packaging Income Fund

### MANAGEMENT'S DISCUSSION AND ANALYSIS

July 29, 2019

---

Highlights of the overall performance for the second quarter as compared to the same period in 2018 include:

- Revenue up \$5.2 mil. due to 2.8% organic growth in addition to 3.7% from currency translation due to a 3¢ U.S./Cdn. decrease,
- Adjusted EBITDA<sup>1</sup> up \$0.6 mil., or 5.0%, at 14.4% of sales, on higher revenue,
- Current income taxes up \$0.5 mil. on higher taxable income,
- Net income increased \$0.4 mil., or 3.8¢ per Unit, due primarily to a lower mark-to-market loss on exchangeable shares,
- Non-cash working capital was flat mainly due to increases in inventory of \$1.5 mil. and prepaids of \$0.5 mil. offset by a decrease in receivables of \$1.9 mil.,
- Assets increased by \$35.3 mil. and long-term financial liabilities increased by \$30.2 mil., offset by \$6.5 mil. debt repayment, to reflect the new accounting policy for leases,
- Free cash flow<sup>2</sup> of \$4.1 mil. was used to pay \$1.3 million of income tax payable from the first quarter and repay \$3.0 million of term debt.
- Leverage ratio flat at 0.5x compared to ratio at March 31, 2019,
- Distributable cash flow<sup>2</sup> up \$0.1 mil., or 1.1¢ per Unit, resulting in a 49% payout ratio<sup>3</sup>, and
- Monthly distributions of 11¢ per Unit paid represented a 3.1% annualized return on the June 30<sup>th</sup> closing price of \$42.91 per Unit. These distributions have been characterized as return of capital.

#### Review of Operations

Operations were split approximately half in the United States (“Richards Packaging US”) and half in Canada. Approximately forty percent of sales are concentrated in Los Angeles, Reno and Portland and 40% in Toronto, Montreal, Winnipeg and Vancouver.

Revenue increased by \$5.2 million, or 6.5%, for the second quarter from the same period in 2018 due to organic growth (\$2.3 million) along with the translation impact of Richards US, with the Canadian dollar weakening by 2.7¢ to U.S./Cdn.75¢ (\$2.9 million). Revenue increased by \$12.5 million, or 8.1%, for the first half from the same period in 2018 due to organic growth of \$6.4 million along with the translation impact of Richards US, with the Canadian dollar strengthening by 3.3¢ to U.S./Cdn.75¢.

	Qtr.2		Six months	
(% change over p/y)	2019	2018	2019	2018
<b>Revenue disaggregation</b>				
Cosmetics.....	15.6%	7.1%	9.6%	6.1%
Healthcare.....	1.5%	12.8%	7.8%	7.5%
Food, beverage & other.....	(2.6%)	0.8%	0.2%	3.1%
Exchange translation.....	3.7%	(1.4%)	3.9%	(1.5%)
Weighted average growth.....	6.5%	3.3%	8.1%	2.8%

*Richards Packaging Income Fund*

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

July 29, 2019

(\$ thousands)	Qtr. 2		Six months	
	2019	2018	2019	2018
<b>Revenue</b> .....	<b>85,451</b>	80,273	<b>167,350</b>	154,860
Cost of products sold.....	<b>68,446</b>	63,981	<b>134,151</b>	123,241
Lease expense.....	<b>1,575</b>	1,490	<b>3,031</b>	2,960
Gross profit.....	<b>15,429</b>	14,802	<b>30,167</b>	28,659
	<i>18.1%</i>	<i>18.4%</i>	<i>18.0%</i>	<i>18.5%</i>
Administrative expenses.....	<b>3,170</b>	3,056	<b>6,194</b>	6,046
Foreign currency loss (gain).....	<b>(20)</b>	52	<b>(62)</b>	87
<b>Adjusted EBITDA</b> <sup>1</sup> .....	<b>12,279</b>	11,694	<b>24,035</b>	22,526
	<i>14.4%</i>	<i>14.6%</i>	<i>14.4%</i>	<i>14.5%</i>
Amortization.....	<b>883</b>	795	<b>1,743</b>	1,577
Exceptional items.....	<b>31</b>	—	<b>281</b>	—
Financial expenses.....	<b>871</b>	586	<b>1,643</b>	1,131
Exchangeable shares.....	<b>4,379</b>	4,986	<b>6,926</b>	5,855
Share of income - Vision.....	<b>17</b>	(6)	<b>26</b>	8
Income tax expense.....	<b>3,108</b>	2,763	<b>5,866</b>	5,280
<b>Net Income</b> .....	<b>2,990</b>	2,570	<b>7,550</b>	8,675

Cosmetics packaging increased \$2.8 million, excluding the impact of translation, or 15.6%, as existing large customers continued to grow by 4.0% (\$0.7 mil.) and new customers added 3.0% (\$0.5 mil.). In addition, the extra investment in inventory was converted to take advantage of demand outside our customer base resulting in an additional 6.1% growth (\$1.1 mil.) in second quarter sales. The remaining increase of 2.5% represents normal activity.

Healthcare increased \$0.3 million, or 1.5%, from the same period in 2018 down compared to the traditional growth rates of over 5% reflecting a slowdown in spending with the threat of the Ontario government proposed budget cuts.

Food, beverage and other packaging decreased by \$0.9 million, excluding the impact of translation, or 2.6% for the second quarter primarily due to the loss of 2 large customers representing \$2.4 million per quarter which was offset by \$1.5 million of organic growth. This was partially due to the implementation of the US tariffs on Chinese imports.

Cost of products sold (before amortization and lease expense) for the second quarter and the first half increased by \$4.5 million, or 7.0%, and by \$10.9 million, or 8.9%, from the same periods in 2018, respectively. Gross profit margins for the second quarter were similar to the first quarter levels at 18%. Resins price volatility did not have a material impact on margins as a result of management's practice of passing through increases and decreases to customers.

## *Richards Packaging Income Fund*

### MANAGEMENT'S DISCUSSION AND ANALYSIS

*July 29, 2019*

---

Lease expense represents a reallocation out of amortization, for lease depreciation required to be characterized as finance leases under the new IFRS 16 and is higher against the same period in 2018 accounted for as operating leases under IAS 17 due to the move into one larger facility and a renewal of another.

Administrative expenses (before amortization) increased \$0.1 million for the second quarter and \$0.2 million for the first half with the same periods in 2018 mainly due to inflation.

The foreign currency loss (gain) from operations resulted from exchange rate changes applied to our U.S. dollar denominated working capital position within our Canadian operations. The net liability position decreased in the second quarter leading to the gain as the Canadian dollar strengthened by 1.6¢ from March 31 to 76.4¢ U.S./Cdn.

Adjusted EBITDA<sup>1</sup> for the second quarter and first half increased by \$0.6 million, or 5.0%, and by \$1.5 million, or 6.7%, from the same periods in 2018, respectively. As a percent of sales, Adjusted EBITDA was at 14.4% for the second quarter and for the first half, similar to the same periods in 2018. The impact of translation was an increase of \$0.5 million for the second quarter and \$1.1 million for the first half due to the weaker Canadian dollar and higher earnings at Richards US.

Amortization (excluding leases) of \$0.9 million for the second quarter and \$1.7 million for the first half were mainly comprised of \$0.5 million and \$0.9 million respectively for intangible assets amortization, which represents a charge for customer relationships. Depreciation for capital assets was \$0.4 million and \$0.8 million for the second quarter and the first half respectively, which annualized, is approximately Richards Packaging's normalized annual maintenance capital expenditure requirement.

Exceptional items in the first half include professional fees associated with our reorganization.

Financial expenses were \$0.3 million higher for the second quarter and up \$0.5 million for the first half compared to the same periods in 2018 due to interest on leases with the adoption of IFRS 16.

Exchangeable shares mark-to-market loss reflects a \$5.10 per Unit price increase during the second quarter and a Unit price increase of \$7.91 for the first half to \$42.91 per Unit. Exchangeable shares monthly distributions were 11¢ per share in the first half of 2019.

Income tax expense was up \$0.3 million for the second quarter and \$0.6 million for the first half compared to the same periods in 2018, respectively, primarily on higher taxable income.

Net income was up \$0.4 million or 3.8¢ per Unit and down \$1.1 million or 10.3¢ per Unit on a diluted basis for the second quarter and for the first half, respectively.

## Richards Packaging Income Fund

### MANAGEMENT'S DISCUSSION AND ANALYSIS

July 29, 2019

#### Distributable Cash Flow<sup>2</sup>

The distributable cash flow<sup>2</sup> definition excludes changes in working capital and capital expenditures for the expansion of the business, as they are necessary to drive organic growth and are expected to be financed by a \$5.0 million revolving facility currently undrawn (2018 – nil drawn) or free cash flow<sup>2</sup>. Distributable cash flow<sup>2</sup> for the second quarter and first half was \$0.1 million and \$0.3 million higher than in the same periods in 2018. Overall the increase was attributed to increased Adjusted EBITDA<sup>1</sup> offset by higher current income taxes.

Free cash flow<sup>2</sup> of \$4.1 million was used to pay \$1.3 million of income tax payable from the first quarter and repay \$3.0 million of term debt. The \$2.4 million of cash on hand as at June 30<sup>th</sup> will be used to fund future growth.

Monthly distributions paid of 11¢ per Unit represent a payout ratio<sup>3</sup> of 49% for the second quarter and represent an annual yield of 3.1% on a \$42.91 price per Unit at June 30, 2019. The Unit distributions for the first half are characterized as 66% return of capital and 34% capital dividends.

(\$ thousands)	Qtr. 2		Six months	
	2019	2018	2019	2018
Cash provided by operating activities.....	8,523	6,219	12,951	9,328
Lease expense.....	(1,574)	—	(3,030)	—
Exceptional items.....	31	—	281	—
Working capital changes.....	239	1,152	5,998	4,947
Income taxes payments.....	5,061	4,323	7,836	8,251
<b>Adjusted EBITDA<sup>1</sup></b>	<b>12,279</b>	11,694	<b>24,035</b>	22,526
Exceptional items.....	31	—	281	—
Interest (excluding leases).....	571	546	1,141	1,091
Current income tax.....	3,383	2,921	6,288	5,575
Maintenance capital.....	338	405	839	697
<b>Distributable cash flow<sup>2</sup></b>	<b>7,956</b>	7,822	<b>15,486</b>	15,163
<i>Diluted per Unit</i> .....	<i>68.0¢</i>	<i>66.9¢</i>	<i>\$1.32</i>	<i>\$1.12</i>
<b>Distributions</b> .....	<b>3,896</b>	3,892	<b>7,792</b>	7,780
<i>Diluted per Unit</i> .....	<i>33.3¢</i>	<i>33.3¢</i>	<i>66.6¢</i>	<i>66.5¢</i>
<i>Payout ratio<sup>3</sup></i> .....	<i>49%</i>	<i>50%</i>	<i>50%</i>	<i>51%</i>
<b>Free cash flow<sup>2</sup></b>	<b>4,060</b>	3,930	<b>7,694</b>	7,383
<b>Units outstanding (average)</b>				
<i>Diluted basis 000's</i> .....	<b>11,693</b>	11,693	<b>11,693</b>	11,693

## ***Richards Packaging Income Fund***

### **MANAGEMENT'S DISCUSSION AND ANALYSIS**

*July 29, 2019*

---

#### **Liquidity and Financing**

##### ***Cash flows from operating activities***

Cash flow from operating activities was up \$2.3 million for the second quarter and up \$3.6 million for the first half over the same periods in 2018, primarily due to the recharacterization of operating leases included in 2018. In addition, during the second quarter, working capital increased by \$0.2 million mainly on higher inventory and prepaids of \$2.1 million offset by lower receivables of \$1.9 million. For the first half, working capital increased \$6.0 million with a decrease of \$6.8 million in payables and increases in receivables of \$1.3 million offset by decreases of \$1.8 million in inventory and \$0.3 million in prepaids.

The financial structure of the Fund allows for maximum distributions of cash flow from operations to the Unitholders and Exchangeable shareholders as outlined above in the distributable cash discussion.

##### ***Current income taxes***

Current income tax expense of \$3.4 million for the second quarter and \$6.3 million for the first half reflects the higher taxable income in the respective periods.

##### ***Capital expenditures***

Maintenance capital expenditures for the first half were \$0.8 million (2018 – \$0.7 million) mainly comprised of refurbishment of moulds for replacement packaging, warehouse equipment and computer equipment upgrades. Expansion capital expenditures for the first half were nil (2018 – \$0.1 million).

##### ***Financing activities and instruments***

Credit facilities include a \$23.5 million term loan (2018 – \$30.0 million) with maturity on September 30, 2021 and up to \$5.0 million in revolving debt to fund working capital expansion. The term loan facility bears interest at BA's plus a premium of 1.15% to 1.80% or a prime rate plus a premium of 0.15% to 0.80%. During the second quarter, \$3.0 million was repaid (2018 – \$2.5 million).

The credit facilities are subject to a number of covenants including the leverage ratio which was to maintain debt less than 2.75 times the trailing twelve months Adjusted EBITDA<sup>1</sup>. As at June 30, 2019, our leverage ratio was 0.5 times (2018 0.7 times). Combined with cash flow from operations, management believes that adequate financing will be available for the foreseeable future<sup>4</sup>.

## ***Richards Packaging Income Fund***

### **MANAGEMENT'S DISCUSSION AND ANALYSIS**

*July 29, 2019*

---

#### **Outlook Sensitivities<sup>4</sup>**

Management believes that the performance of Richards Packaging is on track to meet ongoing requirements for working capital, capital expenditures and to sustain monthly distributions to unitholders at the current level through 2019.

For the third quarter of 2019, we expect food, beverage and other revenue to be down by \$1.2 million as the large customer loss is expected to be partially offset by organic growth. Exchange translation at the current exchange rate of U.S./Cdn. 76¢ will be flat over the same period in 2018. The sensitivity to revenue is \$0.5 million and to Adjusted EBITDA<sup>1</sup> is \$0.05 million for every 1¢ movement in the exchange rate.

Maintenance capital will continue to be funded by cash flow from operations at \$0.4 million per quarter with an additional \$1.0 million set aside for an IT system upgrade by the end of 2019.

Distributable cash flow<sup>2</sup> from Richards Packaging US and Richards Canada's current tax profile are expected to allow for a full return of capital to Unitholders. Distributable cash flow<sup>2</sup> sensitivity on an annual basis to foreign currency fluctuations is \$0.03 million for every U.S./Cdn. 1¢ movement. For 2019, surplus distributable cash is expected to be deployed to pay down debt, purchase units opportunistically under the normal course issuer bid and/or fund acquisitions.

#### **Risks and Uncertainties**

Investment in Units involves risks inherent in the ordinary course of business including: changes in China tariff rates, sustainability of customer and supplier relationships, financial stability of customers, lack of written customer and supplier agreements, competition from other packaging companies, the extent and duration of an economic downturn, inventory obsolescence, trade risks, resin price and exchange rate fluctuations, interest rate volatility, income taxes and reliance on key personnel. For a detailed description of these and other risks and uncertainties facing investors in the Fund please refer to the 2018 Annual Information Form dated March 6, 2019. To management's knowledge, no significant changes to these risks and uncertainties have occurred in the first half of 2019.

#### **Critical Accounting Estimates**

Preparation of the consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions which affect the amounts reported, and disclosure of contingent amounts for assets and liabilities as at June 30, 2019 and revenue and expenses for the period then ended. There have not been any significant changes in the critical accounting estimates of the Fund in the first half of 2019, relative to December 31, 2018 except for those associated with the implementation of lease accounting outlined below. For more information on critical accounting estimates, see the Management's Discussion and Analysis, the audited consolidated financial statements and the notes to the consolidated financial statements included in the Fund's 2018 Annual Report.

## ***Richards Packaging Income Fund***

### **MANAGEMENT'S DISCUSSION AND ANALYSIS**

*July 29, 2019*

---

#### **New Accounting Policy**

The Fund adopted IFRS 16, *Leases* for the annual period beginning on January 1, 2019 which required us to capitalize and amortize the fair value of most operating leases over the term of the leases. The impact of the adoption of this standard was an increase to long-term assets by \$29 million, long-term liabilities by \$26 million and accounts payable and accruals by \$5 million on the statements of financial position. Assets associated with lease contracts cannot be used as security for term borrowings.

#### **Disclosure Controls and Internal Controls over Financial Reporting**

There have been no changes in the Fund's internal controls over financial reporting during the first half that have materially affected, or are reasonably likely to materially affect, its internal controls over financial reporting.

#### **Cautionary Statement**

Additional information relating to the Fund is available on Richards Packaging's website at [www.richardspackaging.com](http://www.richardspackaging.com), SEDAR at [www.sedar.com](http://www.sedar.com) or TSX at [www.tmx.com](http://www.tmx.com)

- 
- 1 Management defines Adjusted EBITDA as net income before non-lease amortization, exceptional items, financial expenses, unrealized losses and distributions on exchangeable shares, share of income - Vision and income tax expense. The reconciliation of Adjusted EBITDA to net income can be found on page 4. Our lenders use this measure as a starting point in the determination of earnings available for distribution to Unitholders and exchangeable shareholders. In addition, Adjusted EBITDA and Adjusted EBITDA as a percentage of sales are intended to provide additional information on the operating performance. This earnings measure should not be construed as an alternative to net income or as an alternative to cash flows from operating, investing and financing activities as a measure of liquidity and cash flows. Adjusted EBITDA does not have a standardized meaning prescribed by IFRS and therefore the method of calculating Adjusted EBITDA may not be comparable to similar measures presented by other companies.*
  - 2 Management defines distributable cash flow, in accordance with Richards Packaging's credit agreement, as Adjusted EBITDA less exceptional items, non-lease interest, cash income tax expense, maintenance capital expenditures plus dividends from equity investments. The reconciliation to cash flow from operations can be found on page 6. Free cash flow is distributable cash flow less distributions. The objective of presenting this measure is to calculate the amount which is available for distribution to Unitholders or exchangeable shareholders and to determine the amount available to fund increases in working capital or expansion capital. Investors are cautioned that distributable cash flow should not be construed as an alternative to cash flow from operating, investing and financing activities as a measure of liquidity and cash flows. Distributable cash flow does not have a standardized meaning prescribed by IFRS and therefore the method of calculating distributable cash flow may not be comparable to similar measures presented by other companies.*
  - 3 Management defines payout ratio as distributions declared over distributable cash flow<sup>2</sup>. The objective of presenting this measure is to calculate the percentage of distributions compared to the amount available for distribution under our credit agreement. Payout ratio does not have a standardized meaning prescribed by IFRS. The method of calculating payout ratio may not be comparable to similar measures presented by other companies.*

## ***Richards Packaging Income Fund***

### **MANAGEMENT'S DISCUSSION AND ANALYSIS**

July 29, 2019

---

- 4 *The Report to Unitholders and this MD&A contains forward-looking information within the meaning of applicable securities laws. The forward-looking information reflects management's current beliefs and expectations regarding the future growth, results of operations, performance and business prospects and opportunities of the Fund and Richards Packaging. We use words such as "may", "will", "should", "anticipate", "plan", "expect", "believe", "predict", "estimate" and similar terminology to identify forward-looking information. It is based on assumptions, estimates and analysis made by us in light of our experience and our perception of trends, current conditions and expected developments, as well as other factors we believe to be reasonable and relevant in the circumstances. Forward-looking information involves significant known and unknown risks, uncertainties and other factors which may cause our actual results, performance or achievements to be materially different from those predicted, expressed or implied by the forward-looking information. Readers should not place undue reliance on forward-looking information as a number of factors could cause actual events, results and prospects to differ materially from those expressed in or implied by the forward-looking information. The risks and uncertainties include, among other things, changes in China tariff rates, changes in customer and supplier relationships, competition in the industry, inventory obsolescence, trade risks in respect of foreign suppliers, fluctuations in foreign exchange and interest rates, liability claims, reliance on key personnel, changes to applicable tax laws, as well as other risks and uncertainties, as more fully described in other reports and filings made by us with securities regulatory authorities and available at [www.sedar.com](http://www.sedar.com). While management believes the expectations expressed and the assumptions underlying same are reasonable, there can be no assurance that such expectations and assumptions will prove to be correct. In evaluating forward-looking information, readers should carefully consider the foregoing factors and various other factors which could cause actual results or events to differ materially from those indicated in the forward-looking information.*

**Notice to Unitholders**

The attached consolidated financial statements have not been reviewed  
by the Fund's external auditors

**Richards Packaging Income Fund**

**STATEMENTS OF NET INCOME AND COMPREHENSIVE INCOME**

*Unaudited*

*For the three and six months ended June 30*

*[Consolidated]*

<i>Cdn\$ thousands</i>	<b>Notes</b>	<b>Three months</b>		<b>Six months</b>	
		<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
<b>Revenue</b>	3	<b>85,451</b>	80,273	<b>167,350</b>	154,860
Cost of sales	2	<b>70,862</b>	66,240	<b>138,846</b>	127,732
Administrative expenses	2	<b>3,244</b>	3,082	<b>6,555</b>	6,092
Foreign currency loss (gain)		<b>(20)</b>	52	<b>(62)</b>	87
<b>Profit from operations</b>		<b>11,365</b>	10,899	<b>22,011</b>	20,949
Financial expenses	2	<b>871</b>	586	<b>1,643</b>	1,131
Exchangeable shares					
Mark-to-market loss		<b>4,078</b>	4,689	<b>6,325</b>	5,265
Distributions		<b>301</b>	297	<b>601</b>	590
Share of loss (income) - Vision		<b>17</b>	(6)	<b>26</b>	8
<b>Profit before income taxes</b>		<b>6,098</b>	5,333	<b>13,416</b>	13,955
Income tax expense (income)					
Current taxes	4	<b>3,383</b>	2,921	<b>6,288</b>	5,575
Deferred taxes	2,4	<b>(275)</b>	(158)	<b>(422)</b>	(295)
		<b>3,108</b>	2,763	<b>5,866</b>	5,280
<b>Net income for the period</b>		<b>2,990</b>	2,570	<b>7,550</b>	8,675
Basic and diluted income per Unit	5	<b>27.4¢</b>	23.6¢	<b>69.3¢</b>	79.6¢
<b>Other comprehensive income (loss)</b>					
<i>(subsequently recyclable to Net income)</i>					
Richards Packaging US -					
Currency translation adjustment	2	<b>(1,277)</b>	1,885	<b>(3,297)</b>	4,380
<b>Comprehensive income for the period</b>		<b>1,713</b>	4,455	<b>4,253</b>	13,055

*See accompanying notes*

“Susan Allen”  
Chair – Audit Committee

“Gerry Glynn”  
CEO – Richards Packaging Inc.

“Enzio Di Gennaro”  
CFO – Richards Packaging Inc.

**Richards Packaging Income Fund**

**STATEMENTS OF FINANCIAL POSITION**

*Unaudited*

*As at June 30 and December 31*

*[Consolidated]*

<i>Cdn\$ thousands</i>	<b>Notes</b>	<b>June 30</b>		<b>Dec. 31</b>	
		<b>2019</b>	<b>2018</b>	<b>2018</b>	<b>2017</b>
<b>ASSETS</b>					
<b>Current Assets</b>					
Cash and cash equivalents		2,355	3,318	6,168	6,816
Accounts receivable	2	35,176	33,830	34,395	29,218
Inventory		57,378	53,001	60,663	48,801
Prepaid expenses and deposits		5,025	4,289	5,453	3,631
		<b>99,934</b>	94,438	<b>106,679</b>	88,466
<b>Long-term Assets</b>					
Property, plant and equipment	2	37,301	4,282	4,797	4,080
Leases receivable	2	2,388	—	—	—
Investment - Vision		699	737	726	745
Intangible assets		12,579	14,397	13,775	14,915
Goodwill		85,267	85,519	86,996	83,578
		<b>138,234</b>	104,935	<b>106,294</b>	103,318
		<b>238,168</b>	199,373	<b>212,973</b>	191,784
<b>LIABILITIES &amp; EQUITY</b>					
<b>Current Liabilities</b>					
Accounts payable and accruals	2	37,272	34,557	40,466	31,842
Income tax payable	4	(359)	361	1,189	3,037
Distributions payable		1,298	1,298	1,300	1,296
Due to previous shareholder		1,032	1,038	1,075	989
Exchangeable shares	5	34,225	30,107	27,900	24,837
		<b>73,468</b>	67,361	<b>71,930</b>	62,001
<b>Long-term Liabilities</b>					
Term debt		23,451	29,980	27,441	33,440
Lease obligations	2	30,154	—	—	—
Deferred income taxes	2,4	3,918	4,285	4,354	4,461
		<b>57,523</b>	34,265	<b>31,795</b>	37,901
<b>Equity</b>					
Unitholders' capital	5	10,000	21,899	14,710	23,049
Retained earnings	2	83,534	62,149	77,598	59,514
Accumulated other comprehensive income	2	13,643	13,699	16,940	9,319
		<b>107,177</b>	97,747	<b>109,248</b>	91,882
		<b>238,168</b>	199,373	<b>212,973</b>	<b>191,784</b>

*See accompanying notes*

**Richards Packaging Income Fund**

**STATEMENTS OF CHANGES IN EQUITY**

*Unaudited*

*For the three and six months ended June 30*

*[Consolidated]*

<i>Cdn\$ thousands</i>	<b>Notes</b>	<b>Unitholders' capital</b>	<b>Retained earnings</b>	<b>AOCI<sup>a)</sup></b>	<b>Equity</b>
<b>March 31, 2018</b>		23,049	62,025	11,814	96,888
Comprehensive income			2,570	1,885	4,455
Distributions		(1,150)	(2,446)		(3,596)
<b>June 30, 2018</b>		21,899	62,149	13,699	97,747
<b>March 31, 2019</b>		13,595	80,544	14,920	109,059
Comprehensive income (loss)			2,990	(1,277)	1,713
Distributions		(3,595)			(3,595)
<b>June 30, 2019</b>		10,000	83,534	13,643	107,177
<b>December 31, 2017</b>		23,049	59,514	9,319	91,882
Comprehensive income			8,675	4,380	13,055
Distributions		(1,150)	(6,040)		(7,190)
<b>June 30, 2018</b>		21,899	62,149	13,699	97,747
<b>December 31, 2018</b>		14,710	77,598	16,940	109,248
IFRS 16 adjustment	2		865		865
<b>January 1, 2019</b>		14,710	78,463	16,940	110,113
Comprehensive income (loss)			7,550	(3,297)	4,253
Distributions		(4,710)	(2,479)		(7,189)
<b>June 30, 2019</b>		10,000	83,534	13,643	107,177

a) AOI - Accumulated other comprehensive income (loss) reflects the foreign currency translation of the net investment in Richards Packaging US.

See accompanying notes

**Richards Packaging Income Fund**

**STATEMENTS OF CASH FLOWS**

*Unaudited*

*For the three and six months ended June 30*

*[Consolidated]*

<i>Cdn.\$ thousands</i>	<b>Notes</b>	<b>Three months</b>		<b>Six months</b>	
		<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
<b>OPERATING ACTIVITIES</b>					
Profit from operations	2	11,365	10,899	22,011	20,949
Add items not involving cash					
Plant, equipment and lease depreciation	2	2,007	349	3,874	670
Intangible assets amortization		450	446	899	907
Income taxes payments	4	(5,061)	(4,323)	(7,836)	(8,251)
Changes in non-cash working capital	2,6	(239)	(1,152)	(5,998)	(4,947)
<b>Cash provided by operating activities</b>		<b>8,522</b>	<b>6,219</b>	<b>12,950</b>	<b>9,328</b>
<b>INVESTING ACTIVITIES</b>					
Additions to plant and equipment		(338)	(493)	(839)	(785)
<b>Cash used in investing activities</b>		<b>(338)</b>	<b>(493)</b>	<b>(839)</b>	<b>(785)</b>
<b>FINANCING ACTIVITIES</b>					
Repayment of term debt		(3,000)	(2,500)	(4,000)	(3,500)
Lease obligation payments	2	(1,120)	—	(2,357)	—
Financial expenses paid	2	(859)	(545)	(1,625)	(1,091)
Distributions paid to Exchangeable Shareholders		(301)	(297)	(602)	(590)
Distributions paid to Unitholders		(3,595)	(3,595)	(7,190)	(7,190)
<b>Cash used in financing activities</b>		<b>(8,876)</b>	<b>(6,937)</b>	<b>(15,775)</b>	<b>(12,371)</b>
<b>Net cash flow for the period</b>		<b>(692)</b>	<b>(1,211)</b>	<b>(3,664)</b>	<b>(3,828)</b>
Cash, beginning of period		3,015	4,443	6,168	6,816
Foreign exchange effect		33	86	(148)	330
<b>Cash, end of period</b>		<b>2,356</b>	<b>3,318</b>	<b>2,356</b>	<b>3,318</b>

*See accompanying notes*

## ***Richards Packaging Income Fund***

### **NOTES TO INTERIM FINANCIAL STATEMENTS**

*Unaudited*

*June 30, 2019*

*[Cdn\$ thousands]*

#### **1. BASIS OF PRESENTATION**

These condensed interim financial statements of the Fund have been prepared in accordance with International Financial Reporting Standard ["IFRS"] IAS 34 *Interim Financial Reporting*. As such these statements do not contain all the explanatory notes, descriptions or accounting policies or other disclosures that can be found in the Fund's 2018 audited annual financial statements. The accounting policies used in the preparation of these condensed interim financial statements are consistent with the 2018 audited annual financial statements except as outlined in Note 2.

#### **2. NEW ACCOUNTING POLICY**

IFRS 16, *Leases*, was adopted on January 1, 2019, for real estate and equipment operating leases, on a modified retrospective basis. Formerly the policy under IAS 17 was to expense rental payments and lease inducements on a straight-line basis over the life of the leases and to disclose future obligations excluding renewal options in a commitment note. Therefore, on January 1, 2019 we reversed \$954 of accounts payable and accruals less the deferred taxes of \$91 to increase retained earnings by \$865. The new policy requires that these leases now be treated as finance leases which requires that the present value of lease payments be recognized utilizing Richards' incremental borrowing rate of 4% as the discount rate. Therefore, on January 1, 2019 we recognized \$28,701 of Property and equipment, \$2,863 of lease receivable and \$31,564 of lease obligations. Lease payments reduce lease obligations after adjusting for implied financial expenses (\$328) 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 and initial direct costs have been excluded. Short term leases (\$296) continue to be treated as operating in nature. The calculations to reflect the adoption of IFRS 16 for lease obligations are outlined below:

<b>Operating lease commitments disclosed as at December 31, 2018</b>	<b>24,291</b>
<b>Lease extension options</b>	<b>12,660</b>
Discount using incremental borrowing rate	(5,117)
Short-term leases	(270)
<b>Lease liability as at January 1, 2019</b>	<b>31,564</b>
Accounts payable and accruals	5,280
Long-term lease obligations	26,284
Lease additions	7,415
Currency translation adjustment	(973)
Lease obligation payments	(2,577)
<b>Lease liability as at June 30, 2019</b>	<b>35,429</b>
Accounts payable and accruals	5,276
Long-term lease obligations	30,153

**Richards Packaging Income Fund**

**NOTES TO INTERIM FINANCIAL STATEMENTS**

*Unaudited*

*June 30, 2019*

*[Cdn\$ thousands]*

Property and equipment are depreciated on a straight-line basis over the expected terms of the leases. The calculations to reflect the adoption of IFRS 16 for property, plant and equipment leases are outlined below:

<b>Property and equipment leases recognized as at January 1, 2019</b>	<b>28,701</b>
Property leases	28,333
Computer equipment	11
Warehouse and office	356
<hr/>	
Additions	7,438
Currency translation adjustment	(503)
Depreciation	(3,025)
<hr/>	
<b>Property, equipment and leases as at June 30, 2019</b>	<b>32,612</b>
Property leases	32,279
Computer equipment	17
Warehouse and office	315

The commitments disclosed at December 31, 2018 were net of the sublease income. The present value of rent receivable from the subleases is reflected as leases receivable with the associated financial income calculated utilizing the actuarial method at a 18% implied rate (\$251). The calculations to reflect the adoption of IFRS 16 for subleases are outlined below:

<b>Sublease income disclosed as at December 31, 2018</b>	<b>4,833</b>
Discount using the implicit lease rate	(1,970)
<hr/>	
<b>Lease receivable recognized as at January 1, 2019</b>	<b>2,863</b>
Accounts receivable	233
Leases receivable	2,630
<hr/>	
Sublease receipts net of financial income	(219)
<hr/>	
<b>Lease receivable recognized as at June 30, 2019</b>	<b>2,644</b>
Accounts receivable	256
Leases receivable	2,388

The impact for the six months ended June 30, 2019 on deferred taxes was a \$209 decrease and on retained earnings a \$202 increase.

**Richards Packaging Income Fund**

**NOTES TO INTERIM FINANCIAL STATEMENTS**

*Unaudited*

June 30, 2019

[Cdn\$ thousands]

**3. REVENUE & SEGMENTED INFORMATION**

	Three months		Six months	
	2019	2018	2019	2018
<b>Revenue by geography</b>				
Canada	35,667	37,558	69,575	70,522
US	49,784	42,715	97,775	84,338
	<b>85,451</b>	80,273	<b>167,350</b>	154,860
<b>Revenue by market</b>				
Cosmetics	27,361	22,818	50,922	44,452
Healthcare	19,793	19,674	38,711	36,078
Food, beverage & other	38,297	37,781	77,717	74,330
	<b>85,451</b>	80,273	<b>167,350</b>	154,860

**4. INCOME TAXES**

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

	Notes	Three months		Six months	
		2019	2018	2019	2018
Profit from operations	2	11,365	10,899	22,011	20,949
Financial expenses	2	(871)	(586)	(1,643)	(1,131)
<b>Income subject to income taxes</b>		<b>10,493</b>	10,313	<b>20,367</b>	19,818
Statutory tax rate		26.8%	26.7%	26.8%	26.8%
Income tax expense at statutory tax rate		2,807	2,758	5,453	5,315
<b>Deferred income taxes</b>	2	<b>276</b>	158	<b>423</b>	295
Current period adjustments					
Refinancing Intercompany notes <sup>a)</sup>		(48)	(48)	(96)	(96)
Financial expenses - leases	2	77	—	131	—
Foreign rate differential		269	54	329	20
Other items		2	(1)	48	41
<b>Current income taxes</b>		<b>3,383</b>	2,921	<b>6,288</b>	5,575

a) future recovery associated with refundable dividend tax on hand of \$1,761 has not been recognized.

*Richards Packaging Income Fund*

**NOTES TO INTERIM FINANCIAL STATEMENTS**

*Unaudited*

*June 30, 2019*

*[Cdn\$ thousands]*

**5. UNITS AND EXCHANGEABLE SHARES**

<i>Number outstanding</i>	<b>Units basic</b>	<b>Weighted average</b>	<b>Exchangeable Shares</b>	<b>Units diluted</b>	<b>Weighted average</b>
December 31, 2017	10,893,365	10,875,082	799,648	11,693,013	11,693,013
March 31, 2018	10,893,365	10,893,365	799,648	11,693,013	11,693,013
June 30, 2018	10,893,365	10,893,365	799,648	11,693,013	11,693,013
Six months ended		10,893,365	799,648		11,693,013
<b>December 31, 2018</b>	<b>10,893,365</b>	<b>10,893,365</b>	<b>799,648</b>	<b>11,693,013</b>	<b>11,693,013</b>
<b>March 31, 2019</b>	<b>10,893,365</b>	<b>10,893,365</b>	<b>799,648</b>	<b>11,693,013</b>	<b>11,693,013</b>
<b>June 30, 2019</b>	<b>10,893,365</b>	<b>10,893,365</b>	<b>799,648</b>	<b>11,693,013</b>	<b>11,693,013</b>
Six months ended		<b>10,893,365</b>	<b>799,648</b>		<b>11,693,013</b>

Exchangeable shares mark-to-market loss reflects \$5.12 per Unit and \$7.91 per Unit price increases during the three and six months ended June 30, 2019 to \$42.91 per Unit, respectively.

The impact on income per Unit of the mark-to-market loss and distributions to shareholders is anti-dilutive which reverts back to basic income per Unit. The calculation of the diluted income per Unit would yield 63¢ for the three-month period of 2019 [2018 – 64.6¢] and \$1.24 for the six-month period of 2019 [2018 – \$1.24].

***Richards Packaging Income Fund***

**NOTES TO INTERIM FINANCIAL STATEMENTS**

*Unaudited*

*June 30, 2019*

*[Cdn\$ thousands]*

**5. ADDITIONAL CASH FLOW INFORMATION**

The net change in working capital consists of the following:

	<b>Notes</b>	<b>Three months</b>		<b>Six months</b>	
		<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
Accounts receivable	2	<b>1,935</b>	(1,533)	<b>(1,333)</b>	(3,806)
Inventory		<b>(1,535)</b>	(4,370)	<b>1,776</b>	(2,640)
Prepaid expenses and deposits		<b>(488)</b>	(820)	<b>328</b>	(577)
Accounts payable and accruals	2	<b>(151)</b>	5,571	<b>(6,769)</b>	2,076
		<b>(239)</b>	(1,152)	<b>(5,998)</b>	(4,947)

For the three and six-month periods the total foreign exchange translation excluded from the above values was \$904 loss [2018 – \$819 gain] and \$1,808 loss [2018 – \$1,823 gain] respectively.