

# *Q1* QUARTERLY REPORT

## **Richards Packaging Income Fund**

Quarter ended March 31, 2020

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## *Richards Packaging Income Fund*

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

*March 31, 2020*

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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 and healthcare providers.

Two factors have had a profound effect on our first quarter results. First the dollar dropped by U.S./Cdn. 1.4¢ on higher Richards US sales and second the increased sales due to healthcare related products associated with combatting the coronavirus. Earnings also were higher due to a favorable product mix and the lack of fixed cost on higher volumes without any price increases.

First quarter performance exceeded our 2019 outlook as total revenue was up 33% on 25% organic revenue growth and 8% currency translation as the dollar weakened to U.S./Cdn. 74¢. Adjusted EBITDA<sup>1</sup> was up \$7.5 million, at 17.7% of sales, due to higher organic revenue growth mainly in our cosmetic and healthcare segments. Net income was up \$10 million, or \$0.61 per Unit, due to increased Adjusted EBITDA and \$5 million gain on the mark-to-market exchangeable share as Unit prices decreased \$6.74 per share from December 31, 2019, partially offset by \$3 million higher income taxes.

The \$8 million of free cash flow<sup>2</sup> generated in the first quarter was utilized to repay \$2 million in debt and build cash balances. The \$28 million cash on hand will be utilized to settle the \$5 million of 2019 and 2020 taxes owing, pay down the \$9 million accounts payable increase, pay down \$9 million in debt and to rebuild inventory levels. The leverage at 0.2x is down 0.1x from the level at December 31, 2019.

The Fund paid monthly capital dividends of 11¢ per Unit, which represented an annualized yield of 3.4% on the March 31<sup>st</sup> closing price of \$38.85 per Unit. The payout ratio<sup>3</sup> for the first quarter was 32% reflecting the 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

May 4, 2020

## Richards Packaging Income Fund

### MANAGEMENT'S DISCUSSION AND ANALYSIS

May 4, 2020

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This management's discussion and analysis ("MD&A") of Richards Packaging Income Fund for the first quarter should be read in conjunction with the attached condensed interim financial statements dated March 31, 2020, the 2019 Annual Report and the 2019 Annual Information Form dated March 6, 2020, 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 2019 annual financial statements.

#### Description of the Business

Richards Packaging serves a wide customer base that is comprised of approximately 14,300 regional food, beverage, cosmetic, healthcare and other enterprises. 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 6% of the total revenues of Richards Packaging (2019 9%).

#### Financial Highlights

This MD&A covers the three months ended March 31, 2020 (generally referred to in this MD&A as the "first quarter"). The following table sets out selected financial information:

(\$ thousands)	Qtr. 1	
	2020	2019
<b>Income Statement Data:</b>		
Revenue.....	108,891	81,899
Net income.....	14,966	4,560
Diluted per Unit <sup>a)</sup> .....	\$ 1.03	41.9¢
<b>Financial Position Data:</b>		
Assets.....	270,929	239,121
Long-term financial liabilities.....	51,143	54,041
Leverage <sup>b)</sup> .....	0.2	0.5
<b>Cash Flow Statement Data:</b>		
Distributions.....	3,859	3,895
Diluted per Unit.....	33.1¢	33.4¢
Payout ratio <sup>3</sup> .....	32%	50%
Debt repayments.....	2,000	1,000

a) anti-dilutive results revert to basic income per Unit  
b) Term debt/Adjusted EBITDA<sup>1</sup>

- Revenue up \$27.0 mil., or 33.0%, due to \$20.4 mil. organic growth, or 24.9%, and \$6.6 mil. from currency translation due to a U.S./Cdn. 1.4¢ decrease to 73.8¢,
- Adjusted EBITDA<sup>1</sup> increased \$7.5 mil. at 17.7% of sales, on higher revenue and gross profit margin,
- Current income taxes were up \$3.2 mil. on higher taxable income,
- Net income increased \$10.4 mil. or 61¢ per Unit, due partially to the market-to-market gain on exchangeable shares,
- Non-cash working capital decreased \$5.9 mil. mainly due to \$7.4 mil. higher payables, as the \$16 mil. rise in receivable was offset by lower inventory, the difference representing prepaids.

## Richards Packaging Income Fund

### MANAGEMENT'S DISCUSSION AND ANALYSIS

May 4, 2020

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- Assets increased by \$31.8 mil. mainly due to cash (\$24.5 mil.) and leases (\$7.5 mil.). Long-term financial liabilities decreased by \$2.9 mil. to reflect \$13.5 mil. debt repayments and \$10.6 mil. higher lease obligations,
- Free cash flow<sup>2</sup> of \$8.3 mil. was utilized to repay \$2.0 mil. in debt and to build cash balances,
- Leverage ratio at 0.2x down 0.1x from ratio at December 31, 2019,
- Distributable cash flow<sup>2</sup> up \$4.4 mil. at \$1.04 per Unit, yielding a 32% payout ratio<sup>3</sup>, and
- Monthly distribution of 11¢ per Unit represented a 3.4% annualized return on the March 31<sup>st</sup> closing price of \$38.85 per Unit. These distributions have been characterized as 100% return of capital.

#### Review of Operations

Operations were 65% in the United States ("Richards US") and 35% in Canada largely reflecting a stronger US dollar and Richards US organic growth. Approximately fifty-two percent of sales are concentrated in Los Angeles, Reno and Portland and 32% in Toronto, Montreal, Winnipeg and Vancouver.

	<i>(% change over p/y)</i>	
	<b>Qtr.1</b>	
Revenue increased by \$27.0 million, or 33.0%, for the first quarter (2019 \$7.3 million, or 9.8%) from the same period in 2019 due to organic growth (\$20.4 million) and the translation impact of Richards US, with the Canadian dollar weakening by 1.4¢ to U.S./Cdn. 73.8¢ (\$6.6 million).	<b>Revenue disaggregation</b>	
	<b>86.0%</b>	<b>3.4%</b>
	<b>15.4%</b>	<b>15.3%</b>
	<b>5.9%</b>	<b>3.2%</b>
	<b>8.1%</b>	<b>4.2%</b>
	<b>33.0%</b>	<b>9.8%</b>

Cosmetics packaging increased \$15.5 million, excluding the impact of translation, for the first quarter with \$14.5 million due to volume related to the coronavirus as pumps and sprayers were sold for hand sanitizer and disinfectant applications. The remaining increase of 5% represents normal activity.

Healthcare increased \$2.9 million from the same period in 2019 with \$1.8 million due to volume related to the coronavirus. The remaining increase of 6% for the quarter represents normal activity across the Healthcare customer base.

Food, beverage and other packaging increased by \$1.9 million, excluding the impact of translation, for the first quarter mainly due to new customers even though GDP in the US was -4.8% and Canada was -10%.

Cost of products sold (before amortization) increased by \$18.3 million, or 27.9%, with gross profit margin up 3.1% mainly due to the product mix shift on higher cosmetic and healthcare growth. The volatility in the price of resins did not have a material impact on margins due to management's practice of passing through increases and decreases to customers.

**Richards Packaging Income Fund**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

May 4, 2020

(\$ thousands)	Qtr. 1		
	2020	2019	
<b>Revenue</b> .....	<b>108,891</b>	81,899	Lease payments increased \$0.4 million of which \$0.2 million represents the current run rate for payments after additions in 2019 and \$0.2 million relates to sublease income no longer included as the current tenant is in arrears.
Cost of sales.....	<b>84,047</b>	65,705	
Lease payments.....	<b>1,895</b>	1,439	
Gross profit.....	<b>22,949</b>	14,755	
	21.1%	18.0%	
Administrative expenses.....	<b>3,482</b>	3,024	Administrative expenses for the first quarter (before amortization) were \$0.5 million higher compared to the same period in 2019 mainly due to inflation and the translation impact of expenses at Richards US.
Foreign currency loss (gain).....	<b>174</b>	(42)	
<b>Adjusted EBITDA<sup>1</sup></b> .....	<b>19,293</b>	11,773	
	17.7%	14.4%	
Lease payments.....	<b>(1,895)</b>	(1,439)	The foreign currency loss (gain) resulted from exchange rate changes applied to our U.S. denominated working capital position within our Canadian operations. The net liability position at the end of the first quarter led to a loss with the weakening Canadian dollar to U.S./Cdn. 70.5¢ from year end (2019 strengthened to 74.8¢).
Amortization.....	<b>2,563</b>	2,316	
Exceptional items.....	—	250	
Financial expenses.....	<b>1,055</b>	772	
Exchangeable shares.....	<b>(2,968)</b>	2,547	
Share of loss (income) - Vision....	<b>(5)</b>	9	
Income tax expense.....	<b>5,577</b>	2,758	
<b>Net Income</b> .....	<b>14,966</b>	4,560	

Adjusted EBITDA for the first quarter increased by \$7.5 million, or 3.3%, from the same period in 2019. Contributing to the improvement were the increase in product mix for cosmetics and healthcare by 9% to 61% of the total revenue, the higher volume coming without added fixed cost, the weaker Canadian dollar as Richards US increased 6% to 65% of total revenue. Offsetting this was the sublease write off to reflect our tenant's financial difficulties due to coronavirus measures.	(\$ thousands)	Revenue	Adjusted EBITDA <sup>1</sup>	
		<b>2019 Q1</b>	81,899	11,773
Organic growth.....		20,363	2,932	14.4%
Product mix.....			3,457	3.2%
Fixed cost.....			1,833	9.0%
Foreign exchange.....		6,629	1,988	1.8%
Lease A/R write down			(2,690)	-2.4%
	<b>2020 Q1</b>	<b>108,891</b>	<b>19,293</b>	<b>17.7%</b>

Amortization of \$2.6 million for the first quarter was mainly comprised of \$1.7 million of lease depreciation and \$0.5 million intangible assets amortization, which represents a charge for customer relationships, and depreciation for capital assets of \$0.4 million, which annualized is approximately equal to half the annual maintenance capital expenditure requirement.

Exceptional items in 2019 included professional fees associated with our reorganization.

## Richards Packaging Income Fund

### MANAGEMENT'S DISCUSSION AND ANALYSIS

May 4, 2020

Financial expenses were higher for the first quarter by \$0.3 million compared to the same period in 2019 due to \$0.2 million of higher credit card fees and the absence of \$0.1 million of lease receivable interest income in connection with our tenant in arrears.

Exchangeable shares mark-to-market gain reflects a unit price decrease during the first quarter of \$6.74 to \$38.85 per Unit. Exchangeable share monthly distributions were 11¢ per share in the first quarter.

Income tax expense increased \$2.8 million for the first quarter compared to the same period in 2019 on higher taxable income.

Net income for the first quarter was \$15.0 million, which represented \$1.03 per Unit, up 61¢ over the same period in 2019.

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

(\$ thousands)	Qtr. 1	
	2020	2019
<b>Cash provided by</b>		
<b>operating activities</b> .....	<b>27,984</b>	4,428
Lease payments and write down..	(4,585)	(1,439)
Exceptional items .....	—	250
Changes in non-cash		
working capital.....	(5,939)	5,759
Income tax payments.....	1,833	2,775
<b>Adjusted EBITDA<sup>1</sup></b>	<b>19,293</b>	11,773
Interest <sup>a)</sup> .....	604	570
Current income tax.....	6,083	2,905
Maintenance capital.....	407	501
<b>Distributable cash flow<sup>2</sup></b> .....	<b>12,199</b>	7,797
Diluted per Unit .....	\$ 1.04	66.5¢
<b>Distributions</b> .....	<b>3,859</b>	3,895
Diluted per Unit .....	33.1¢	33.4¢
Payout ratio <sup>3</sup> .....	32%	50%
<b>Free cash flow<sup>2</sup></b> .....	<b>8,340</b>	3,902
<b>Units outstanding (average)</b>		
Diluted basis 000's .....	11,693	11,693

a) Interest excludes interest on leases.

Distributable cash flow<sup>2</sup> for the first quarter was \$4.4 mil. higher than the same period in 2019 as the increase in Adjusted EBITDA<sup>1</sup> was offset by higher current income taxes.

Non-cash working capital decreased mainly due to \$7.4 mil. higher payables, as the \$16 mil. rise in receivable was offset by lower inventory, with the difference representing prepaids.

Free cash flow<sup>2</sup> of \$8.3 mil. was utilized to repay \$2.0 mil. in debt and to build cash balances. The \$27.5 mil. cash currently on hand will be utilized to pay \$4.9 mil. in income taxes owing, pay down \$9.0 mil. debt and fund working capital needs.

Monthly distributions paid of 11¢ per Unit represent a payout ratio<sup>3</sup> of 32% and an annual yield of 3.4% on a \$38.85 price per Unit at March 31, 2020.

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

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

*May 4, 2020*

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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 either a \$5.0 million revolving facility currently undrawn (2019 – nil drawn) or free cash flow<sup>2</sup>.

#### **Liquidity and Financing**

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

Cash flow from operating activities for the first quarter was up \$23.6 million over the same period in 2019. The increase was due to changes in non-cash working capital up \$11.7 million, profit from operations up \$8.0 million and the lease write down of \$2.6 million. During the first quarter, working capital decreased by \$5.9 million on higher payables of \$7.4 million offset by higher prepaids of \$1.7 million with higher receivables of \$15.7 million fully offset by lower inventory of \$16.0 million.

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. Actual distributions paid during the first quarter were \$3.9 million, with \$1.3 million declared for March which was paid April 14<sup>th</sup>.

##### ***Normal Course Issuer Bid***

On March 14, 2020, the Fund renewed the normal course issuer bid to purchase up to 500,000 Units prior to March 13, 2021. No units were purchased during the first quarter (2019 nil).

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

The current income tax expense for the first quarter was \$6.1 million, which mainly reflects the higher taxable income.

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

Maintenance capital expenditures for the first quarter were \$0.4 million (2019 \$0.5 million) mainly comprised of \$0.3 million mold refurbishments for replacement packaging and \$0.1 million computer equipment upgrades. Expansion capital expenditures for the first quarter were \$nil (2019 \$nil).

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

Credit facilities include a \$13.0 million term loan (2019 \$26.5 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 at a prime rate plus a premium of 0.15% to 0.80%. During the first quarter, \$2.0 million was repaid (2019 \$1.0 million).

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

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

*May 4, 2020*

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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 March 31, 2020, our leverage ratio was 0.2 times (2019 0.5 times). Combined with cash flow from operations, management believes that adequate financing will be available for the foreseeable future<sup>4</sup>.

#### **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 2020.

Second quarter revenue for April continues to grow at double digits on coronavirus related demand and the exchange translation at the current exchange rate of U.S./Cdn. 70¢ has weakened 4¢ over the same period in 2019. The current sensitivity for every 1¢ movement in exchange rates to revenue is \$0.7 million and to Adjusted EBITDA<sup>1</sup> is \$0.07 million.

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

Distributable cash flow<sup>2</sup> from Richards Packaging US and the current tax profile Richards Canada are expected to allow for full return of capital to Unitholders in the second quarter. Distributable cash flow sensitivity to foreign currency fluctuations is \$0.05 million for every U.S./Cdn. 1¢ movement. For 2020, surplus distributable cash is expected to be deployed to pay down debt, fund acquisitions and purchase units opportunistically under the normal course issuer bid.

#### **Risks and Uncertainties**

Investment in Units involves risks inherent in the ordinary course of business including: the impact of pandemics including the coronavirus, changes in China tariff rates, sustainability of customer and supplier relationships, financial stability of customers, lack of written customer and supplier distribution 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 2019 Annual Information Form dated March 6, 2020. To management's knowledge, no significant changes to these risks and uncertainties have occurred in the first quarter of 2020.

#### **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 for contingent amounts of assets and liabilities as at March 31, 2020 and revenue and expenses for the period then ended. There have not been any significant changes in critical accounting estimates during the first

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

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

May 4, 2020

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quarter of 2020, relative to December 31, 2019. 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 2019 Annual Report.

#### **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 quarter 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)

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- 1 Management defines Adjusted EBITDA as net income before amortization, exceptional items, financial expenses, distributions and unrealized gains/losses on exchangeable shares, share of income - Vision and income tax expense less lease payments. 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 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 5. 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.*
  - 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*

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

### **MANAGEMENT’S DISCUSSION AND ANALYSIS**

*May 4, 2020*

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*opportunities of the Fund and Richards Packaging. We use words such as “may”, “expect”, “believe”, “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 months ended March 31*

*[Consolidated]*

<i>Cdn\$ thousands</i>	<b>Notes</b>	<b>2020</b>	<b>2019</b>
<b>Revenue</b>	2	<b>108,891</b>	81,899
Cost of sales		<b>86,582</b>	67,984
Administrative expenses		<b>3,510</b>	3,311
Foreign currency loss (gain)		<b>174</b>	(42)
<b>Profit from operations</b>		<b>18,625</b>	10,646
Financial expenses		<b>1,055</b>	772
Exchangeable shares			
Mark-to-market loss (gain)		<b>(3,121)</b>	2,247
Distributions		<b>153</b>	300
Share of loss (gain) - Vision		<b>(5)</b>	9
<b>Profit before income taxes</b>		<b>20,543</b>	7,318
Income tax expense (income)			
Current taxes	3	<b>6,083</b>	2,905
Deferred taxes	3	<b>(506)</b>	(147)
		<b>5,577</b>	2,758
<b>Net income for the period</b>		<b>14,966</b>	4,560
Basic income per Unit	6	<b>\$ 1.33</b>	41.9¢
Diluted income per Unit	6	<b>\$ 1.03</b>	41.9¢
<b>Other comprehensive income (loss)</b> <i>(subsequently recyclable to Net income)</i>			
Currency translation adjustment - Richards Packaging US		<b>2,936</b>	(2,020)
<b>Comprehensive income for the period</b>		<b>17,902</b>	2,540

*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 March 31 and December 31*

*[Consolidated]*

<i>Cdn.\$ thousands</i>	<b>Notes</b>	<b>Mar. 31</b>		<b>Dec. 31</b>	
		<b>2020</b>	<b>2019</b>	<b>2019</b>	<b>2018</b>
<b>ASSETS</b>					
<b>Current Assets</b>					
Cash and cash equivalents		27,467	3,015	8,023	6,168
Accounts receivable	4	50,175	37,493	32,339	34,395
Inventory	5	44,997	56,605	58,692	60,663
Prepaid expenses and deposits		6,680	4,595	4,812	5,453
		<b>129,319</b>	101,708	<b>103,866</b>	106,679
<b>Long-term Assets</b>					
Leases		40,093	30,050	39,918	—
Plant and equipment		5,023	4,837	4,776	4,797
Leases receivable	5	—	2,509	2,215	—
Investment - Vision		642	717	637	726
Intangible assets		11,763	13,172	11,644	13,775
Goodwill		84,089	86,128	84,958	86,996
		<b>141,610</b>	137,413	<b>144,148</b>	106,294
		<b>270,929</b>	239,121	<b>248,014</b>	212,973
<b>LIABILITIES &amp; EQUITY</b>					
<b>Current Liabilities</b>					
Accounts payable and accruals		50,477	37,958	41,438	40,466
Income tax payable	3	4,924	1,319	674	1,189
Distributions payable		1,286	1,299	1,286	1,300
Due to previous shareholder		1,118	1,053	1,024	1,075
Exchangeable shares	6	17,815	30,147	20,935	27,900
		<b>75,620</b>	71,776	<b>65,357</b>	71,930
<b>Long-term Liabilities</b>					
Term debt		12,968	26,446	14,962	27,441
Lease obligations		38,175	27,595	37,385	—
Deferred income taxes	3	3,240	4,245	3,580	4,354
		<b>54,383</b>	58,286	<b>55,927</b>	31,795
<b>Equity</b>					
Unitholders' capital	6	12,608	13,595	16,314	14,710
Retained earnings		112,683	80,544	97,717	77,598
Accumulated other comprehensive income		15,635	14,920	12,699	16,940
		<b>140,926</b>	109,059	<b>126,730</b>	109,248
		<b>270,929</b>	239,121	<b>248,014</b>	212,973

*See accompanying notes*

**Richards Packaging Income Fund**

**STATEMENTS OF CHANGES IN EQUITY**

*Unaudited*

*For the three months ended March 31*

*[Consolidated]*

<i>Cdn\$ thousands</i>	<b>Unitholders' capital</b>	<b>Retained earnings</b>	<b>AOCI<sup>a)</sup></b>	<b>Equity</b>
<b>December 31, 2018</b>	14,710	77,598	16,940	109,248
IFRS 16 adjustment		865		865
Comprehensive income (loss)		4,560	(2,020)	2,540
Distributions	(1,115)	(2,479)		(3,594)
<b>March 31, 2019</b>	13,595	80,544	14,920	109,059
<b>December 31, 2019</b>	<b>16,314</b>	<b>97,717</b>	<b>12,699</b>	<b>126,730</b>
Comprehensive income		14,966	2,936	17,902
Distributions	(3,706)			(3,706)
<b>March 31, 2020</b>	<b>12,608</b>	<b>112,683</b>	<b>15,635</b>	<b>140,926</b>

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

*See accompanying notes*

***Richards Packaging Income Fund***

**STATEMENTS OF CASH FLOWS**

*Unaudited*

*For the three months ended March 31*

*[Consolidated]*

<i>Cdn.\$ thousands</i>	<b>Notes</b>	<b>2020</b>	<b>2019</b>
<b>OPERATING ACTIVITIES</b>			
Profit from operations		<b>18,625</b>	10,646
Add items not involving cash			
Plant, equipment & lease depreciation and write down	5	<b>4,803</b>	1,867
Intangible assets amortization		<b>450</b>	449
Income taxes payments	3	<b>(1,833)</b>	(2,775)
Changes in non-cash working capital	7	<b>5,939</b>	(5,759)
<b>Cash provided by operating activities</b>		<b>27,984</b>	4,428
<b>INVESTING ACTIVITIES</b>			
Additions to plant and equipment		<b>(407)</b>	(501)
<b>Cash used in investing activities</b>		<b>(407)</b>	(501)
<b>FINANCING ACTIVITIES</b>			
Repayment of term debt		<b>(2,000)</b>	(1,000)
Lease payments		<b>(1,895)</b>	(1,439)
Financial expenses paid (excluding leases)		<b>(583)</b>	(563)
Distributions paid to Exchangeable Shareholders		<b>(153)</b>	(301)
Distributions paid to Unitholders		<b>(3,706)</b>	(3,595)
<b>Cash used in financing activities</b>		<b>(8,337)</b>	(6,898)
<b>Net cash flow for the period</b>		<b>19,240</b>	(2,971)
Cash, beginning of period		<b>8,023</b>	6,168
Foreign exchange effect		<b>204</b>	(182)
<b>Cash, end of period</b>		<b>27,467</b>	3,015

*See accompanying notes*

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

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

*Unaudited*

*March 31, 2020*

*[Cdn\$ thousands]*

#### **1. BASIS OF PRESENTATION AND CORONAVIRUS IMPACT**

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 2019 audited annual financial statements. The accounting policies used in the preparation of these condensed interim financial statements are consistent with the 2019 audited annual financial statements.

The coronavirus pandemic necessitated the shutdown of non-essential businesses within the jurisdictions of Richards Packaging locations. Due to the nature of our business, we were deemed essential serving the food and beverage and healthcare industries and therefore remained open. Employees were provided the option to work from home and most continued to safely perform services in the workplace.

#### **2. REVENUE & SEGMENTED INFORMATION**

	<b>2020</b>	<b>2019</b>
<b>Revenue by geography</b>		
Canada	<b>38,228</b>	33,908
US	<b>70,663</b>	47,991
	<b>108,891</b>	81,899
<b>Revenue by end user</b>		
Cosmetics	<b>45,065</b>	23,561
Healthcare	<b>21,832</b>	18,918
Food, beverage & other	<b>41,994</b>	39,420
	<b>108,891</b>	81,899

#### **3. INCOME TAXES**

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

**Richards Packaging Income Fund**

**NOTES TO INTERIM FINANCIAL STATEMENTS**

Unaudited

March 31, 2020

[Cdn\$ thousands]

	Notes	2020	2019
Profit from operations		18,625	10,646
Financial expenses		(1,055)	(772)
<b>Income subject to income taxes</b>		<b>17,570</b>	9,874
Statutory tax rate		26.6%	26.8%
Income tax expense at statutory tax rate		<b>4,667</b>	2,646
<b>Deferred income tax</b>		<b>506</b>	147
Current period adjustments			
Refinancing Intercompany notes <sup>a)</sup>		<b>76</b>	(48)
Leases	5	<b>698</b>	54
Foreign rate differential		<b>55</b>	60
Other items		<b>81</b>	46
<b>Current income taxes</b>		<b>6,083</b>	2,905

a) future recovery associated with refundable dividend tax on hand of \$2,154 has not been recognized.

Refundable tax on interest and capital gains were \$121 and fully taxable exchangeable share dividends gave rise to a \$48 recovery

**4. ACCOUNTS RECEIVABLE**

	March 2020		December 2019	
	\$	Expected Loss %	\$	Expected Loss %
Current	40,837	1.7%	22,219	0.1%
Up to 60 days past due	9,173	6.7%	8,301	0.3%
61 – 90 days past due	397	26.0%	651	0.7%
Over 90 days past due	1,608	28.6%	1,927	52.8%
<b>Trade receivables</b>	<b>52,015</b>	<b>3.6%</b>	33,098	3.2%
Allowance for doubtful accounts	(1,864)		(1,049)	
Supplier rebates	24		3	
Lease receivables	—		287	
	<b>50,175</b>		<b>32,339</b>	

Management reassessed expected losses for customers impacted by the coronavirus and recorded new provisions of \$969.

During the quarter, accounts receivable of \$872 over 90 days past due at December 31, 2019 was collected.

## *Richards Packaging Income Fund*

### NOTES TO INTERIM FINANCIAL STATEMENTS

*Unaudited*

*March 31, 2020*

*[Cdn\$ thousands]*

#### 5. INVENTORY AND LEASE RECEIVABLE

Management recorded a write down of \$2,690 in Cost of Sales for a sublease for which the tenant's operation has been significantly impacted by the coronavirus.

For the reserve for slow moving inventory, additional consideration was given to those customers shut down due to the pandemic. This resulted in an additional provision of \$167.

#### 6. 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, 2018	10,893,365	10,893,365	799,648	11,693,013	11,693,013
March 31, 2019	10,893,365	10,893,365	799,648	11,693,013	11,693,013
<b>December 31, 2019</b>	<b>11,230,007</b>	<b>11,021,566</b>	<b>463,006</b>	<b>11,693,013</b>	<b>11,693,013</b>
<b>March 31, 2020</b>	<b>11,230,007</b>	<b>11,230,007</b>	<b>463,006</b>	<b>11,693,013</b>	<b>11,693,013</b>

Exchangeable shares mark-to-market loss reflects a unit price increase during the three months ended March 31, 2020 of \$6.74 to \$38.85 per Unit.

#### 7. ADDITIONAL CASH FLOW INFORMATION

The net change in non-cash working capital consists of the following:

	<b>2020</b>	<b>2019</b>
Accounts receivable	<b>(15,728)</b>	(3,268)
Inventory	<b>15,995</b>	3,311
Prepaid expenses and deposits	<b>(1,678)</b>	816
Accounts payable and accruals	<b>7,350</b>	(6,618)
	<b>5,939</b>	(5,759)

Total foreign exchange translation impact excluded from the above was \$3,185 gain [2019 – \$904 loss].