

## **Q2 QUARTERLY REPORT**

### **Richards Packaging Income Fund**

Quarter ended June 30, 2020

#### **Report Contents**

CEO's report to unitholders .....	1
Management's discussion and analysis.....	2
Financial statements .....	9
Notes to financial statements .....	13



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

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

*June 30, 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.

Three factors have had a profound effect on our second quarter results. First the acquisition of Clarion on May 31<sup>st</sup>, second the dollar dropped by U.S./Cdn. 3¢ on higher Richards US sales and third the increased sales due to healthcare related products associated with combatting the coronavirus. Earnings also were higher due to a lack of fixed costs on higher volumes without any price increases. The Clarion impact was mainly reflected as balance sheet increases of \$25 million to current assets, \$47 million to goodwill and intangibles, \$7 million to current liabilities and \$35 million to debt. Also, a \$65 million revolving facility was obtained for future acquisitions.

Second quarter performance exceeded our outlook with revenue, excluding Clarion, up 41% on 30% organic growth and 11% currency translation as the dollar weakened 3¢ to U.S./Cdn. 72¢. Clarion June sales at \$7 million were up 15% from the 2019 monthly average as the clinics are trying to deal with pent up demand caused by the government enforced shut down. Adjusted EBITDA<sup>1</sup> was up \$15 million, at 22% of sales, due to higher organic revenue growth mainly in our cosmetic and healthcare segments. Net income increased \$3 million, or 26¢ per Unit, as the higher Adjusted EBITDA was partially offset by a \$6 million larger loss on the mark-to-market adjustment to exchangeable shares as Unit prices rose \$23 from March 31, 2020 and \$5 million higher income taxes.

First half results reflect revenue growth, excluding Clarion, of 37% driven by organic growth of 28% and a 9% currency translation with U.S./Cdn. 2¢ weakening of the dollar. Adjusted EBITDA<sup>1</sup> was up \$22 million, at 20% of sales, due to higher sales. Net income was up \$13 million, or \$1.17 per Unit, mainly due to higher Adjusted EBITDA offset by \$8 million of associated taxes and \$1 million higher mark-to-market loss on the exchangeable shares.

Free cash flow<sup>2</sup> of \$15 million generated in the second quarter and \$27 million of cash on hand at March 31<sup>st</sup> was utilized to rebuild inventory levels by \$9 million, settle \$4 million of income tax payable from the first quarter, repay \$13 million of term debt and to contribute \$15 million to the Clarion acquisition and payoff \$3 million of their debt. With the Clarion acquisition, leverage was 0.4x as at June 30th.

Monthly distributions of 11¢ per Unit paid during the second quarter, represented an annualized yield of 2.1% on the June 30<sup>th</sup> closing price of \$62 per Unit. The second quarter payout ratio<sup>3</sup> was 21%.

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

Aug 06, 2020

## Richards Packaging Income Fund

### MANAGEMENT'S DISCUSSION AND ANALYSIS

August 6, 2020

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, 2020, the first quarter report dated May 4, 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 16,800 regional food, beverage, cosmetic, healthcare and other enterprises. The primary source of revenue is from the distribution of over 7,900 different types of packaging components and healthcare products sourced from over 900 suppliers and its four dedicated manufacturing facilities. Sales from these manufacturing facilities represent approximately 5% of the total revenues of Richards Packaging (2019 – 8%). On May 31<sup>st</sup> Clarion Medical Technologies Inc. ("Clarion"), a leading Canadian distributor of medical aesthetic, vision care and surgical equipment and consumables was acquired.

#### Financial Highlights

This MD&A covers the three and six months ended June 30, 2020 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	
	2020	2019	2020	2019
<b>Income Statement Data:</b>				
Revenue.....	127,019	85,451	235,910	167,350
Net income.....	5,944	2,990	20,910	7,550
Diluted per Unit <sup>a)</sup> .....	52.9¢	27.4¢	\$1.86	69.3¢
<b>Financial Position Data:</b>				
Assets.....	328,980	238,168		
Long-term financial liabilities.....	71,563	53,605		
Leverage <sup>b)</sup> .....	0.4	0.5		
<b>Cash Flow Statement Data:</b>				
Distributions.....	3,859	3,896	7,718	7,792
Diluted per Unit.....	33.0¢	33.3¢	66.0¢	66.6¢
Payout ratio <sup>3</sup> .....	21%	49%	25%	50%
Debt repayments (borrowing).....	(22,000)	3,000	(20,000)	4,000

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

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

#### Financial highlights for the first half:

- Revenue up 37.0%, excluding Clarion, due to 27.5% organic and acquisition growth and 9.5% from currency translation with a U.S./Cdn. 2.1¢ decrease,
- Adjusted EBITDA<sup>1</sup> up \$22.4 mil., at 19.8% of sales, on higher revenue,
- Current income taxes up \$7.7 mil. on higher taxable income,
- Net income increased \$13.4 mil., or \$1.17 per Unit, due to higher Adjusted EBITDA offset by a higher mark-to-market loss on exchangeable shares, acquisition expenses and increased income taxes,
- Assets increased by \$90.8 mil., \$73.1 mil. for Clarion, \$10.1 mil. for receivables and \$7.1 mil. in cash. Long-term financial liabilities increased by \$18.0 mil., \$35.0 mil. for Clarion, partially offset by \$15.0 mil. debt repayment,

## Richards Packaging Income Fund

### MANAGEMENT'S DISCUSSION AND ANALYSIS

August 6, 2020

- Non-cash working capital was down by \$2.1 mil. mainly due to an increase in payables (\$11.7 mil.) and decrease in inventory (\$7.3 mil.) offset by increases in receivables (\$11.8 mil.) and prepaids (\$5.1 mil.),
- Free cash flow<sup>2</sup> of \$23.0 mil. and \$8.0 mil. cash on hand was used to repay \$15.0 mil. of term debt and provide \$14.8 mil. for the Clarion acquisition and \$3.0 mil. to extinguish Clarion debt,
- Leverage ratio increased to 0.4x compared to 0.3x ratio at December 31, 2019,
- Distributable cash flow<sup>2</sup> up \$14.8 mil., or \$1.28 per Unit, resulting in a 25% payout ratio<sup>3</sup>, and
- Monthly distributions of 11¢ per Unit paid represented a 2.1% annualized return on the June 30<sup>th</sup> closing price of \$61.59 per Unit. These distributions have been characterized as return of capital.

#### Financial highlights for the second quarter:

Revenue excluding Clarion increased by \$35.0 mil., or 40.9%, due to organic growth of 30.2% along with the \$9.2 mil. translation impact of Richards US, with the Canadian dollar weakening by U.S./Cdn. 2.7¢ to 72.1¢. Clarion sales for the month of June was 15% higher than the average monthly sales for 2019 at \$6.6 mil.

Cosmetics packaging increased \$17.2 mil., excluding the impact of translation, with \$16.1 mil. due to volume related to the coronavirus. The remaining 5% increase represents normal activity.

Healthcare increased \$5.0 mil., excluding Clarion, with \$3.2 mil. due to volume related to the coronavirus. The remaining increase of 6% for the quarter represents normal activity across the Healthcare customer base. Clarion June sales at \$6.6 mil. was higher than the 2019 monthly average due to pent up demand as clinics reopened.

Food, beverage and other packaging increased by \$3.6 mil., excluding the impact of translation, with roughly one-half of the increase representing a one-time sale of excess supplier inventory.

Cost of sales, before amortization, increased by \$24.2 mil., or 35.3%. Gross profit margins were up 4.2% over the first quarter levels of 21.1% due to higher volumes and a 7% better product mix in cosmetics and healthcare. Resins price volatility did not have a material impact on margins due to management's practice of passing through increases and decreases to customers.

Lease payments increased \$0.8 mil. of which \$0.6 mil. represents the current run rate for payments after additions and \$0.2 mil. relates to sublease income no longer included as the current tenant is in arrears.

Administrative expenses, before amortization, increased \$1.5 mil. from the same periods in 2019 mainly due to the addition of Clarion (\$0.5 mil.), foreign exchange translation (\$0.2 mil.) and inflation.

	Qtr.2		Six months	
(% change over p/y)	2020	2019	2020	2019
<b>Revenue disaggregation</b>				
Cosmetics.....	82.5%	15.6%	84.1%	9.6%
Healthcare.....	25.1%	1.5%	20.4%	7.8%
Clarion.....	7.7%		3.9%	
Food, beverage & other.....	11.1%	-2.6%	8.5%	0.2%
Exchange translation.....	10.8%	3.7%	9.5%	3.9%
Weighted average growth.....	48.6%	6.5%	41.0%	8.1%

## Richards Packaging Income Fund

### MANAGEMENT'S DISCUSSION AND ANALYSIS

August 6, 2020

(\$ thousands)	Qtr. 2		Six months	
	2020	2019	2020	2019
<b>Revenue</b> .....	<b>127,019</b>	85,451	<b>235,910</b>	167,350
Cost of sales.....	<b>92,627</b>	68,447	<b>176,674</b>	134,152
Lease payments.....	<b>2,198</b>	1,408	<b>4,093</b>	2,847
Gross profit.....	<b>32,194</b>	15,596	<b>55,143</b>	30,351
	25.3%	18.3%	23.4%	18.1%
Administrative expenses.....	<b>4,701</b>	3,170	<b>8,183</b>	6,194
Foreign currency loss (gain).....	<b>148</b>	(20)	<b>322</b>	(62)
<b>Adjusted EBITDA</b> <sup>1</sup> .....	<b>27,345</b>	12,446	<b>46,638</b>	24,219
	21.5%	14.6%	19.8%	14.5%
Lease payments.....	<b>(2,198)</b>	(1,408)	<b>(4,093)</b>	(2,847)
Amortization.....	<b>2,901</b>	2,458	<b>5,464</b>	4,774
Exceptional items.....	<b>1,118</b>	31	<b>1,118</b>	281
Financial expenses.....	<b>1,189</b>	871	<b>2,244</b>	1,643
Exchangeable shares.....	<b>10,682</b>	4,379	<b>7,714</b>	6,926
Share of loss (income) - Vision.....	<b>(88)</b>	17	<b>(93)</b>	26
Income tax expense.....	<b>7,797</b>	3,108	<b>13,374</b>	5,866
<b>Net Income</b> .....	<b>5,944</b>	2,990	<b>20,910</b>	7,550

The foreign currency loss (gain) resulted from exchange rate changes applied to our U.S. dollar denominated working capital position within our Canadian operations and our U.S. dollar and Euro dollar in Clarion. The increase in the net liability position at the end of the second quarter led to a loss with spot Canadian dollar at U.S./Cdn. 73.4¢.

Amortization is comprised of \$1.8 mil. for leases, \$0.5 mil. for intangible assets, which represents a charge for customer relationships and depreciation for capital assets was \$0.5 mil. which annualized is approximately the annual maintenance capital expenditure requirement.

Adjusted EBITDA<sup>1</sup> increased by \$14.9 mil., or 6.9% of sales. Contributing to the improvements were the increase in product mix for cosmetics and healthcare by 7% to 55% of the total revenue, the higher volume not attracting added fixed costs and the U.S./Cdn. 2.7¢ weaker Canadian dollar as Richards US increased 3% to 61% of total revenue.

Exceptional items represent professional fees associated with our acquisition of Clarion.

Financial expenses were \$0.3 mil. higher due to additional debt and \$0.1 mil. of amortization for fees associated with the Clarion acquisition.

Exchangeable shares mark-to-market loss reflects a \$22.74 per Unit price increase to \$61.59 per Unit (2019 - \$5.10 per Unit). Exchangeable shares monthly distributions were 11¢ per share.

Income tax expense increased \$4.7 mil. for the second quarter compared to the same period in 2019 on higher taxable income.

Net income for the second quarter was up \$3.0 mil., which represented a 25.5¢ per Unit increase.

(\$ thousands)	Revenue	Adjusted EBITDA	
<b>2019 Q2</b>	85,451	12,446	14.6%
Organic growth.....	32,382	4,728	14.6%
Product mix.....		3,445	2.7%
Fixed cost.....		2,914	9.0%
Foreign exchange.....	9,186	3,812	3.0%
<b>2020 Q2</b>	<b>127,019</b>	<b>27,345</b>	<b>21.5%</b>

## Richards Packaging Income Fund

### MANAGEMENT'S DISCUSSION AND ANALYSIS

August 6, 2020

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

(\$ thousands)	Qtr. 2		Six months		
	2020	2019	2020	2019	
Cash provided by operating activities.....	19,878	8,522	47,862	12,950	Distributable cash flow <sup>2</sup> for the second quarter and first half was \$10.4 mil. and \$14.8 mil. higher. The improvement was attributed to higher Adjusted EBITDA <sup>1</sup> offset by associated current income taxes.
Lease expense and write down.....	(2,198)	(1,408)	(6,783)	(2,847)	
Exceptional items.....	1,118	31	1,118	281	Non-cash working capital increased for the second quarter mainly due to higher inventory and prepaids partially offset by lower receivables and higher payables in the second quarter. During the first half the increase in receivables was mainly offset by higher payables.
Changes in non-cash working capital.....	3,848	239	(2,091)	5,998	
Income taxes payments.....	4,699	5,061	6,532	7,836	Payout ratio <sup>3</sup> decreased 28% for the second quarter and 24% for the first half.
<b>Adjusted EBITDA<sup>1</sup></b>	<b>27,345</b>	<b>12,445</b>	<b>46,637</b>	<b>24,218</b>	
Interest <sup>a)</sup> .....	682	571	1,286	1,141	Free cash flow <sup>2</sup> generated in the first half was used to repay \$15.0 mil. of term debt and to contribute to the purchase of Clarion. The \$9.5 mil. of cash on hand as at June 30 <sup>th</sup> will be used to pay income taxes.
Current income tax.....	7,861	3,383	13,944	6,288	
Maintenance capital.....	290	338	697	839	
<b>Distributable cash flow<sup>2</sup></b>	<b>18,512</b>	<b>8,153</b>	<b>30,710</b>	<b>15,950</b>	
<i>Diluted per Unit</i> .....	<i>\$1.58</i>	<i>68.0¢</i>	<i>\$2.63</i>	<i>\$1.35</i>	
<b>Distributions</b> .....	<b>3,859</b>	<b>3,896</b>	<b>7,718</b>	<b>7,791</b>	
<i>Diluted per Unit</i> .....	<i>33.0¢</i>	<i>33.3¢</i>	<i>66.0¢</i>	<i>66.6¢</i>	
<i>Payout ratio<sup>3</sup></i> .....	<i>21%</i>	<i>49%</i>	<i>25%</i>	<i>49%</i>	
<b>Free cash flow<sup>2</sup></b> .....	<b>14,653</b>	<b>4,257</b>	<b>22,992</b>	<b>8,159</b>	
<b>Units outstanding (average)</b>					
<i>Diluted basis 000's</i> .....	<b>11,693</b>	<b>11,693</b>	<b>11,693</b>	<b>11,693</b>	

a) financial expenses less interest on leases and bank refinancing fees

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 the revolving facility or free cash flow<sup>2</sup>.

#### Liquidity and Financing

##### Cash flows from operating activities

Cash flow from operating activities was up \$11.4 mil. for the second quarter and up \$34.9 mil. for the first half primarily due to higher profit from operations. In addition, during the second quarter, working capital increased by \$3.8 mil. mainly on higher inventory of \$8.7 mil. and prepaids of \$3.4 mil. offset by lower receivables (\$4.0 mil) and higher payables (\$4.3 mil). For the first half, working capital decreased \$2.1 mil. as higher receivables (\$11.8 mil.) and prepaids (\$5.1 mil.) were fully offset by lower inventory of \$7.3 mil. and higher payables of \$11.7 mil.

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

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

*August 6, 2020*

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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 second quarter were \$3.9 mil., with \$1.3 mil. declared for June which was paid July 14<sup>th</sup>.

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

Current income tax expense increases of \$4.5 mil. for the second quarter and \$7.7 mil. for the first half reflects the higher taxable income in the respective periods.

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

The Clarion acquisition on May 31<sup>st</sup> was for \$49.8 mil. net of a \$10.5 mil. holdback.

Maintenance capital expenditures for the first half were \$0.7 mil. (2019 – \$0.8 mil.) mainly comprised of refurbishment of moulds for replacement packaging and computer equipment upgrades. Expansion capital expenditures for the first half were \$nil (2019 – \$nil).

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

Credit facilities include a \$35.0 mil. term loan (2019 – \$23.5 mil.) with maturity on May 31, 2024 and up to \$65.0 mil. in revolving debt to fund future acquisitions and working capital expansion at a cost of \$0.5 mil. The term loan facility bears interest at BA's plus a premium of 0.95% to 1.70% or a prime rate plus a premium of 0% to 0.7%. During the second quarter, \$13.0 mil. was repaid (2019 – \$3.0 mil.).

The credit facilities are subject to several 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, 2020, our leverage ratio was 0.4 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.

Third quarter revenues in July continue to grow at double digits on coronavirus related demand. Exchange translation at the current exchange rate of U.S./Cdn. 75¢ will be flat over the same period in 2019. The sensitivity to revenue is \$0.7 mil. and to Adjusted EBITDA<sup>1</sup> is \$0.07 mil. for every 1¢ movement in the exchange rate.

Maintenance capital will continue to be funded by cash flow from operations at \$0.4 mil. per quarter with an additional \$1.0 mil. set aside for IT system upgrades by the end of 2020.

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

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

*August 6, 2020*

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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 \$0.05 mil. for every U.S./Cdn. 1¢ movement. For 2020, surplus distributable cash is expected to be deployed to pay down debt and fund acquisitions.

#### **Risks and Uncertainties**

Investment in Units involves risks inherent in the ordinary course of business including: the impact of the coronavirus, changes in China tariff rates, sustainability of customer and supplier relationships, financial stability of customers, disruption and allotments by suppliers, competition from other 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 half 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 of contingent amounts for assets and liabilities as at June 30, 2020 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 2020, relative to December 31, 2019 except for the calculation of intangibles and goodwill for the Clarion acquisition. 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 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)

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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*



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

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

*August 6, 2020*

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*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 purpose of 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 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 considering 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 several 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 are more fully described on page 7. 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.*

<p style="text-align: center;"><b>Notice to Unitholders</b></p>
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<p style="text-align: center;">The attached consolidated financial statements have not been reviewed by the Fund's external auditors</p>
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**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>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
<b>Revenue</b>	3	<b>127,019</b>	85,451	<b>235,910</b>	167,350
Cost of sales	6	<b>95,491</b>	70,862	<b>182,073</b>	138,846
Administrative expenses	2	<b>5,856</b>	3,244	<b>9,366</b>	6,555
Foreign currency loss (gain)		<b>148</b>	(20)	<b>322</b>	(62)
<b>Profit from operations</b>		<b>25,524</b>	11,365	<b>44,149</b>	22,011
Financial expenses	2	<b>1,189</b>	871	<b>2,244</b>	1,643
Exchangeable shares					
Mark-to-market loss	7	<b>10,529</b>	4,078	<b>7,408</b>	6,325
Distributions		<b>153</b>	301	<b>306</b>	601
Share of loss (income) - Vision		<b>(88)</b>	17	<b>(93)</b>	26
<b>Profit before income taxes</b>		<b>13,741</b>	6,098	<b>34,284</b>	13,416
Income tax expense (income)					
Current taxes	4	<b>7,861</b>	3,383	<b>13,944</b>	6,288
Deferred taxes	4	<b>(64)</b>	(275)	<b>(570)</b>	(422)
		<b>7,797</b>	3,108	<b>13,374</b>	5,866
<b>Net income for the period</b>		<b>5,944</b>	2,990	<b>20,910</b>	7,550
Basic and diluted per Unit	7	<b>52.9¢</b>	27.4¢	<b>\$1.86</b>	69.3¢
<b>Other comprehensive income (loss)</b>					
<i>(subsequently recyclable to Net income)</i>					
Richards US -					
Currency translation adjustment		<b>(2,207)</b>	(1,277)	<b>729</b>	(3,297)
<b>Comprehensive income for the period</b>		<b>3,737</b>	1,713	<b>21,639</b>	4,253

*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>2020</b>	<b>2019</b>	<b>2019</b>	<b>2018</b>
<b>ASSETS</b>					
<b>Current Assets</b>					
Cash and cash equivalents		9,468	2,355	8,023	6,168
Accounts receivable	5	51,742	35,176	32,339	34,395
Inventory	6	69,327	57,378	58,692	60,663
Prepaid expenses and deposits		11,738	5,025	4,812	5,453
		<b>142,275</b>	99,934	<b>103,866</b>	106,679
<b>Long-term Assets</b>					
Leases		39,121	32,612	39,918	—
Plant and equipment		6,110	4,689	4,776	4,797
Leases receivable	6	—	2,388	2,215	—
Investment - Vision		730	699	637	726
Intangible assets	2	29,881	12,579	11,644	13,775
Goodwill	2	110,863	85,267	84,958	86,996
		<b>186,705</b>	138,234	<b>144,148</b>	106,294
		<b>328,980</b>	238,168	<b>248,014</b>	212,973
<b>LIABILITIES &amp; EQUITY</b>					
<b>Current Liabilities</b>					
Accounts payable and accruals		60,355	37,272	41,438	40,466
Income tax payable	4	8,880	(359)	674	1,189
Distributions payable		1,286	1,298	1,286	1,300
Due to previous shareholders	2	11,574	1,032	1,024	1,075
Exchangeable shares	7	28,344	34,225	20,935	27,900
		<b>110,439</b>	73,468	<b>65,357</b>	71,930
<b>Long-term Liabilities</b>					
Term debt	2	34,509	23,451	14,962	27,441
Lease obligations		37,054	30,154	37,385	—
Deferred income taxes	2	6,020	3,918	3,580	4,354
		<b>77,583</b>	57,523	<b>55,927</b>	31,795
<b>Equity</b>					
Unitholders' capital	7	8,902	10,000	16,314	14,710
Retained earnings		118,628	83,534	97,717	77,598
Accumulated other comprehensive income		13,428	13,643	12,699	16,940
		<b>140,958</b>	107,177	<b>126,730</b>	109,248
		<b>328,980</b>	238,168	<b>248,014</b>	212,973

*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>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)		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
<b>December 31, 2019</b>	<b>16,314</b>	<b>97,717</b>	<b>12,699</b>	<b>126,730</b>
Comprehensive income (loss)		<b>20,911</b>	<b>729</b>	<b>21,640</b>
Distributions	<b>(7,412)</b>			<b>(7,412)</b>
<b>June 30, 2020</b>	<b>8,902</b>	<b>118,628</b>	<b>13,428</b>	<b>140,958</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 and six months ended June 30*

*[Consolidated]*

<i>Cdn.\$ thousands</i>	<b>Notes</b>	<b>Three months</b>		<b>Six months</b>	
		<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
<b>OPERATING ACTIVITIES</b>					
Profit from operations		25,524	11,365	44,149	22,011
Add items not involving cash					
Plant, equipment & lease depreciation		2,376	2,007	4,489	3,874
Lease write down	6	—	—	2,690	—
Intangible assets amortization		525	450	975	899
Income taxes payments	4	(4,699)	(5,061)	(6,532)	(7,836)
Changes in non-cash working capital	8	(3,847)	(239)	2,092	(5,998)
<b>Cash provided by operating activities</b>		<b>19,879</b>	<b>8,522</b>	<b>47,863</b>	<b>12,950</b>
<b>INVESTING ACTIVITIES</b>					
Acquisition, net of holdback	2	(49,826)	—	(49,826)	—
Additions to plant and equipment		(290)	(338)	(697)	(839)
<b>Cash used in investing activities</b>		<b>(50,116)</b>	<b>(338)</b>	<b>(50,523)</b>	<b>(839)</b>
<b>FINANCING ACTIVITIES</b>					
Repayment of term debt		(13,000)	(3,000)	(15,000)	(4,000)
Proceeds from debt for acquisition	2	35,000	—	35,000	—
Extinguish Clarion debt	2	(2,997)	—	(2,997)	—
Lease payments		(2,198)	(1,448)	(4,093)	(2,887)
Financial expenses paid (excluding leases)	2	(1,201)	(532)	(1,784)	(1,095)
Distributions paid to Exchangeable Shareholders		(153)	(301)	(306)	(602)
Distributions paid to Unitholders		(3,706)	(3,595)	(7,412)	(7,190)
<b>Cash used in financing activities</b>		<b>11,745</b>	<b>(8,876)</b>	<b>3,408</b>	<b>(15,774)</b>
<b>Net cash flow for the period</b>		<b>(18,492)</b>	<b>(692)</b>	<b>748</b>	<b>(3,663)</b>
Cash, beginning of period		27,467	3,015	8,023	6,168
Foreign exchange effect		493	32	697	(150)
<b>Cash, end of period</b>		<b>9,468</b>	<b>2,355</b>	<b>9,468</b>	<b>2,355</b>

*See accompanying notes*

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

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

*Unaudited*

*June 30, 2020*

*[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 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 except for the addition of Clarion effective May 31, 2020.

#### **2. ACQUISITION & DEBT FINANCING**

On May 31, 2020 Richards Packaging acquired all of the outstanding shares of Clarion Medical Technologies Inc. (“Clarion”), a leading Canadian distributor of medical aesthetic, vision care and surgical equipment and consumables, for an aggregate purchase price of \$60,326, subject to contingent consideration based on future earnings for 2022 or 2023 without limitation, at the seller’s option, due 90 days after the year then ended. As at June 30, 2020, no amount has been recognized given the current economic environment. Financing was by way of a draw of \$35,000 term debt, \$14,826 cash on hand and a \$10,500 holdback. Goodwill arises as result of the potential of the product line offerings and the value of human resources reflected in specialized sales and marketing skill sets.

Details of the preliminary purchase price equation and assets and liabilities acquired are as follows:

	\$		\$
Current assets	<b>25,402</b>	Current liabilities	<b>7,079</b>
Leases	<b>892</b>	Lease obligations	<b>892</b>
Plant and equipment	<b>1,385</b>	Deferred income taxes	<b>2,918</b>
Trademarks	<b>6,600</b>	Clarion debt	<b>2,997</b>
Customer relationships	<b>12,300</b>		
<b>Total assets acquired</b>	<b>46,579</b>	<b>Total liabilities assumed</b>	<b>13,886</b>
Fair value of net assets acquired			<b>32,693</b>
Goodwill			<b>27,633</b>
<b>Aggregate purchase price</b>			<b>60,326</b>
Holdback			<b>(10,500)</b>
<b>Acquisition, net of holdback</b>			<b>49,826</b>

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

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

*Unaudited*

*June 30, 2020*

*[Cdn\$ thousands]*

Associated acquisition fees were recognized as administrative expenses (\$1,118). As part of the transaction the \$2,997 of Clarion debt was paid off by Richards Packaging.

The Statement of Net Income includes revenue of \$6,608 and net income of \$216 for the month ended June 30, 2020. Due to the lack of availability of reliable financial information for Clarion prior to the acquisition and the impact of the coronavirus, providing pro forma information for the full year is impractical.

On May 31, 2020, the revolving and term debt credit facilities were expanded and extended to May 31, 2024 at a cost of \$502 which will be deferred and amortized over the term of the facilities. The term facility of \$35,000 [2019 – \$15,000] bears interest at the bankers' acceptance borrowing rate plus a premium of 0.95% to 1.7%. The remaining revolving credit facility of \$65,000 [2019 – \$5,000], which is available for future acquisitions, was undrawn. The facility bears interest at the same rate as the term facility and any unused portion bears a standby fee of 20% of the drawn rate.

### **3. REVENUE & SEGMENTED INFORMATION**

	<b>Three months</b>		<b>Six months</b>	
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
<b>Revenue by geography</b>				
Canada	<b>49,064</b>	35,667	<b>87,292</b>	69,575
US	<b>77,955</b>	49,784	<b>148,618</b>	97,775
	<b>127,019</b>	85,451	<b>235,910</b>	167,350
<b>Revenue by market</b>				
Cosmetics	<b>51,930</b>	27,361	<b>96,995</b>	50,922
Healthcare <sup>a)</sup>	<b>31,372</b>	19,793	<b>53,204</b>	38,711
Food, beverage & other	<b>43,717</b>	38,297	<b>85,711</b>	77,717
	<b>127,019</b>	85,451	<b>235,910</b>	167,350

*a) Healthcare includes \$6,608 for Clarion.*

## Richards Packaging Income Fund

### NOTES TO INTERIM FINANCIAL STATEMENTS

Unaudited

June 30, 2020

[Cdn\$ thousands]

#### 4. INCOME TAXES

	Three months		Six months	
	2020	2019	2020	2019
Profit from operations	25,524	11,365	44,149	22,011
Financial expenses	(1,189)	(871)	(2,244)	(1,643)
<b>Income subject to income taxes</b>	<b>24,335</b>	<b>10,494</b>	<b>41,905</b>	<b>20,368</b>
Statutory tax rate	26.6%	26.8%	26.6%	26.8%
Income tax expense at statutory tax rate	6,463	2,807	11,130	5,453
<b>Deferred income tax</b>	<b>64</b>	<b>275</b>	<b>570</b>	<b>422</b>
Current period adjustments				
Refinancing Intercompany notes <sup>a)</sup>	84	(48)	160	(96)
Leases	8	77	706	131
Foreign rate differential	96	269	151	329
Acquisition costs	580	—	580	—
Withholding tax	475	—	475	—
Other items	90	3	171	49
<b>Current income taxes</b>	<b>7,861</b>	<b>3,383</b>	<b>13,944</b>	<b>6,288</b>

a) future recovery associated with refundable dividend tax on hand of \$2,221 has not been recognized. Refundable tax on interest and capital gains were \$256 and fully taxable exchangeable share dividends gave rise to a \$96 recovery for the six months ending June 30, 2020.

#### 5. ACCOUNTS RECEIVABLE

	June 30		December 31	
		Loss		Loss
Current	34,334	1.9%	22,219	0.1%
Up to 60 days past due	14,961	3.7%	8,301	0.3%
61 – 90 days past due	911	18.4%	651	0.7%
Over 90 days past due	3,466	18.3%	1,927	52.8%
<b>Trade receivables</b>	<b>53,672</b>	<b>3.7%</b>	<b>33,098</b>	<b>3.2%</b>
Allowance for doubtful accounts	(2,009)		(1,049)	
Supplier rebates	79		3	
Lease receivables	—		287	
	<b>51,742</b>		<b>32,339</b>	

Management reassessed expected losses for customers impacted by the coronavirus, after adding \$40 for the Clarion acquisition, and recognized new provisions of \$946 (including \$4 for Clarion) and wrote off \$41 during the six months ending June 30, 2020.



## Richards Packaging Income Fund

### NOTES TO INTERIM FINANCIAL STATEMENTS

Unaudited

June 30, 2020

[Cdn\$ thousands]

#### 6. INVENTORY AND LEASE RECEIVABLE

On March 31, 2020 management recorded a write down of \$2,690 in Cost of Sales for a sublease because the tenant's operation has been significantly impacted by the coronavirus.

Reserve for slow moving inventory of \$11,284 reflects consideration given to customers shut down due to the coronavirus with an additional provision of \$729 for the six months ending June 30, 2020.

#### 7. 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
June 30, 2019	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, 2019</b>	<b>12,230,007</b>	<b>11,021,566</b>	<b>463,006</b>	<b>11,693,013</b>	<b>11,693,013</b>
<b>June 30, 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>
Six months ended		<b>11,230,007</b>	<b>463,006</b>		<b>11,693,013</b>

Exchangeable shares mark-to-market loss reflects \$22.74 per Unit and \$16.00 per Unit price increases during the three and six months ended June 30, 2020 to \$61.59 per Unit, respectively.

#### 8. ADDITIONAL CASH FLOW INFORMATION

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

	<b>Three months</b>		<b>Six months</b>	
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
Accounts receivable	<b>3,928</b>	1,935	<b>(11,800)</b>	(1,333)
Inventory	<b>(8,651)</b>	(1,535)	<b>7,344</b>	1,776
Prepaid expenses and deposits	<b>(3,453)</b>	(488)	<b>(5,131)</b>	328
Accounts payable and accruals	<b>4,328</b>	(151)	<b>11,678</b>	(6,769)
	<b>(3,848)</b>	(239)	<b>2,091</b>	(5,998)

For the three and six-month periods the total foreign exchange translation excluded from the above values was \$1,742 loss [2019 – \$904] and \$1,443 gain [2019 – \$1,808 loss] respectively.