

# **Q3 QUARTERLY REPORT**

## **Richards Packaging Income Fund**

Quarter ended September 30, 2020

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

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

*September 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.

As impacts of the coronavirus unwind, the burning question is what level of sales increase and earnings are sustainable in a covid-free environment? A bridging table and a trend table have been provided to help investors come to their own conclusion in this regard. Richards is experiencing slower growth in October and expects negative growth for the first three quarters of 2021 (see Outlook on page 7).

Third quarter performance decelerated with revenue, excluding Clarion, up 24%, down from 41% in the second quarter, on 19% organic growth and 5% currency translation as the dollar weakened 1¢ to U.S./Cdn. 75¢, up from 72¢ in the second quarter. Clarion sales at \$20 million were up 13% from the 2019 monthly average as the clinics have caught up with pent up demand caused by the government enforced shut down. Adjusted EBITDA<sup>1</sup> was up \$13 million, at 20% of sales, due to the addition of Clarion and higher organic revenue growth mainly in our cosmetic and healthcare segments. Net income decreased \$2 million, or 10¢ per Unit, as the higher Adjusted EBITDA was overwhelmed by a \$11 million larger loss on the mark-to-market adjustment to exchangeable shares as Unit prices rose \$22 from June 30, 2020 and \$3 million higher income taxes.

Nine months results reflect revenue growth, excluding Clarion, of 33% driven by organic growth of 25% and a 8% currency translation with U.S./Cdn. 2¢ weakening of the dollar. Adjusted EBITDA<sup>1</sup> was up \$35 million, at 20% of sales, due to higher revenues. Net income was up \$11 million, or \$0.96 per Unit, mainly due to higher Adjusted EBITDA offset by \$11 million of associated taxes and \$13 million higher mark-to-market loss on the exchangeable shares.

Third quarter free cash flow<sup>2</sup> of \$13 million was mainly utilized to rebuild inventory levels by \$10 million, pay \$1 million of term debt and pay \$1 million of the Clarion holdback. Leverage was 0.4x as at Sept. 30<sup>th</sup>.

Monthly distributions of 11¢ per Unit paid during the third quarter, represented an annualized yield of 1.6% on the Sept. 30<sup>th</sup> closing price of \$84 per Unit. The third quarter payout ratio<sup>3</sup> was 22%.

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

Oct. 29, 2020

## Richards Packaging Income Fund

### MANAGEMENT'S DISCUSSION AND ANALYSIS

October 29, 2020

This management's discussion and analysis ("MD&A") of Richards Packaging Income Fund for the third quarter should be read in conjunction with the attached condensed interim financial statements dated September 30, 2020, the second quarter report dated August 6, 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 17,000 regional food, beverage, cosmetic, healthcare and other enterprises. The primary source of revenue is from the distribution of over 8,000 different types of packaging components and healthcare supplies and 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 – 7%). 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 nine months ended Sept. 30, 2020 generally referred to in this MD&A as the "third quarter" and the "nine months", respectively. The following table sets out selected consolidated financial information:

(\$ thousands)	Qtr. 3		Nine months		<i>Financial highlights for the nine months:</i>
	2020	2019	2020	2019	
<b>Income Statement Data:</b>					
Revenue.....	128,591	87,273	364,501	254,623	• Revenue up 32.7%, excluding Clarion, due to 24.6% organic and acquisition growth and 8.1% from currency translation due to a U.S./Cdn. 1.7¢ decrease. Clarion added 10.4%,
Net income.....	6,502	8,879	27,412	16,429	• Adjusted EBITDA <sup>1</sup> up \$35.4 mil., at 19.8% of sales, on higher revenue,
Diluted per Unit <sup>a)</sup> .....	57.9¢	68.1¢	\$2.44	\$1.48	• Current income taxes up \$11.2 mil. on higher taxable income,
<b>Financial Position Data:</b>					
Assets.....	329,684	241,948			• Net income increased \$11.0 mil., or \$0.96 per Unit, mainly due to higher Adjusted EBITDA offset by a \$12.6 mil. higher mark-to-market loss on exchangeable shares and increased income taxes,
Long-term financial liabilities.....	66,032	48,607			• Assets increased by \$87.7 mil., \$73.1 mil. for Clarion and \$14.1 mil. for receivables. Long-term financial liabilities increased by \$17.4 mil., \$35.0 mil. for Clarion, partially offset by \$14.1 mil. of debt repayment and higher lease obligations.
Leverage <sup>b)</sup> .....	0.4	0.4			
<b>Cash Flow Statement Data:</b>					
Distributions.....	3,858	3,882	11,576	11,674	
Diluted per Unit.....	33.0¢	33.2¢	99.0¢	99.8¢	
Payout ratio <sup>3</sup> .....	22%	45%	24%	48%	
Debt repayments (borrowing).....	1,000	4,000	(19,000)	8,000	

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

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

## Richards Packaging Income Fund

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- Non-cash working capital was up by \$5.2 mil. mainly due to an increase in payables (\$15.0 mil.) offset by increases in receivables (\$13.0 mil.), inventory (\$2.3 mil.) and prepaids (\$4.9 mil.).
- Free cash flow<sup>2</sup> of \$36.4 mil. was mainly used to repay \$16.0 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 \$23.5 mil., or \$2.00 per Unit, resulting in a 24% payout ratio<sup>3</sup>, and
- Monthly distributions of 11¢ per Unit paid represented a 1.6% annualized return on the Sept. 30<sup>th</sup> closing price of \$84.00 per Unit. These distributions have been characterized as return of capital.

#### Financial highlights for the third quarter:

Revenue excluding Clarion increased by \$21.4 mil., or 24.5% down from 37.0% in the first half, due to organic growth of 18.9% (versus 27.5%) along with the \$5.6 mil. (versus \$9.5 mil.) translation impact of Richards US, with the Canadian dollar weakening by U.S./Cdn. 0.7¢ to 75.0¢. Clarion revenues were 12.5% higher than the average monthly sales for 2019 at \$19.9 mil. which fully offset the lower sales associated with coronavirus impacts.

Cosmetics packaging increased \$13.3 mil., excluding the impact of translation, with \$12.2 mil. due to volume related to the coronavirus. The remaining 6% increase represents normal activity.

Healthcare increased \$2.6 mil., excluding Clarion, with \$1.4 mil. due to volume related to the coronavirus. The remaining increase of 6% for the quarter represents normal activity across the customer base. Clarion monthly revenues 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 \$0.6 mil., excluding the impact of translation, with a \$2.2 mil. lost customer due to the additional US tariff on China.

Cost of sales, before amortization, increased by \$25.6 mil., or 36.8%. Gross profit margins were up 1.7% over the first half levels of 23.4% due to higher volumes and a 6% 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.

Revenue disaggregation (% change over p/y)	Qtr.3		Qtr.2		Qtr.1		Nine months	
	2020	2019	2020	2020	2020	2019	2020	2019
Cosmetics.....	67.7	4.6	82.5	86.0	78.6	7.9		
Healthcare.....	13.1	8.0	25.1	15.4	17.9	7.9		
Clarion.....	22.8		7.7		10.4			
Food, bev. & other.....	1.6	5.0	11.1	5.9	6.1	1.9		
Exchange translation.....	5.6	2.3	10.8	8.1	8.1	3.4		
Weighted average.....	47.3	7.2	48.6	33.0	43.2	7.8		

Revenue trend (\$ thousands)	Qtr. 3		Qtr. 2		Qtr. 1		Nine months	
	2019	2019	2019	2019	2019	2019	2019	2019
Organic growth.....	2,914	4,384	2,400	9,698	3.3%	5.1%	2.9%	3.8%
Coronavirus.....	13,596	21,390	17,963	52,949				
Clarion.....	19,911	6,608		26,519				
Foreign exchange....	4,897	9,186	6,629	20,712				
<b>2020</b>	<b>128,591</b>	<b>127,019</b>	<b>108,891</b>	<b>364,501</b>	<b>47.3%</b>	<b>48.6%</b>	<b>33.0%</b>	<b>43.2%</b>

## Richards Packaging Income Fund

### MANAGEMENT'S DISCUSSION AND ANALYSIS

October 29, 2020

Lease payments increased \$0.5 mil. of which \$0.3 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 has defaulted.

(\$ thousands)	Qtr. 3		Nine months		
	2020	2019	2020	2019	
<b>Revenue</b> .....	<b>128,591</b>	87,273	<b>364,501</b>	254,623	Administrative expenses, before amortization, increased \$3.1 mil. from the same periods in 2019 mainly due to the addition of Clarion (\$1.8 mil.), foreign exchange translation and inflation.
Cost of sales.....	<b>94,221</b>	69,700	<b>270,895</b>	203,852	
Lease payments.....	<b>2,136</b>	1,594	<b>6,229</b>	4,441	
Gross profit.....	<b>32,234</b>	15,979	<b>87,377</b>	46,330	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 third quarter led to a loss with spot Canadian dollar at U.S./Cdn. 75.0¢.
	<i>25.1%</i>	<i>18.3%</i>	<i>24.0%</i>	<i>18.2%</i>	
Administrative expenses.....	<b>6,417</b>	3,343	<b>14,600</b>	9,537	
Foreign currency loss (gain).....	<b>166</b>	(20)	<b>488</b>	(82)	
<b>Adjusted EBITDA<sup>1</sup></b> .....	<b>25,651</b>	12,656	<b>72,289</b>	36,875	Amortization is comprised of \$1.8 mil. for leases, \$0.7 mil. for intangible assets, which represents a charge for customer relationships and depreciation for capital assets was \$0.6 mil. which annualized is approximately the annual maintenance capital expenditure requirement.
	<i>19.9%</i>	<i>14.5%</i>	<i>19.8%</i>	<i>14.5%</i>	
Lease payments.....	<b>(2,136)</b>	(1,594)	<b>(6,229)</b>	(4,441)	
Amortization.....	<b>3,069</b>	2,484	<b>8,533</b>	7,258	
Exceptional items.....	—	—	<b>1,118</b>	281	
Financial expenses.....	<b>1,384</b>	874	<b>3,628</b>	2,517	
Exchangeable shares.....	<b>10,528</b>	(915)	<b>18,242</b>	6,011	
Share of income - Vision.....	<b>14</b>	9	<b>(79)</b>	35	
Income tax expense.....	<b>6,290</b>	2,919	<b>19,664</b>	8,785	
<b>Net Income</b> .....	<b>6,502</b>	8,879	<b>27,412</b>	16,429	

Adjusted EBITDA<sup>1</sup> increased by \$13.0 mil., or 5.4% of sales. Contributing to the improvements were the increase in product mix for cosmetics and healthcare by 13% to 59% of the total revenue, the higher volume, net of Clarion, not attracting added fixed costs and the U.S./Cdn. 0.7¢ weaker Canadian dollar as Richards US increased 35%.

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

Financial expenses were \$0.5 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 \$22.41 per Unit price increase to \$84.00 per Unit (2019 - \$2.41 per Unit decrease). Exchangeable shares monthly distributions were 11¢ per share.

(\$ thousands)	Revenue	Adjusted EBITDA	
<b>2019 Q3</b>	87,273	12,656	<i>14.5%</i>
Organic growth.....	36,421	5,282	<i>14.5%</i>
Product mix.....		4,114	<i>3.2%</i>
Fixed cost.....		1,486	<i>9.0%</i>
Foreign exchange.....	4,897	2,113	<i>1.6%</i>
<b>2020 Q3</b>	<b>128,591</b>	<b>25,651</b>	<b>19.9%</b>

## Richards Packaging Income Fund

### MANAGEMENT'S DISCUSSION AND ANALYSIS

October 29, 2020

Income tax expense increased \$3.4 mil. compared to the same period in 2019 on higher taxable income.

Net income was down \$2.4 mil., which represented a 10.2 per Unit decrease, mainly due to a higher exchangeable shares mark-to-market loss.

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

(\$ thousands)	Qtr. 3		Nine months		
	2020	2019	2020	2019	
<b>Cash provided by operating activities</b> .....	<b>4,749</b>	11,740	<b>52,612</b>	24,690	Distributable cash flow <sup>2</sup> increase for the third quarter and nine months was \$8.7 mil. and \$23.5 mil. The improvement was attributed to higher Adjusted EBITDA <sup>1</sup> offset by associated current income taxes.
Lease payments and write down.....	(2,136)	(1,594)	(8,919)	(4,441)	
Exceptional items.....	—	—	1,118	281	Non-cash working capital increased for the third quarter mainly due to \$9.7 mil. higher inventory added in the third quarter. During the nine months the increase was mainly due to higher prepaids and inventories (\$7.3 mil.) as we rebuild our inventory to pre coronavirus levels.
Changes in non-cash working capital.....	7,322	611	5,230	6,609	
Income tax payments.....	15,716	1,899	22,248	9,735	Payout ratio <sup>3</sup> decreased 23% for the third quarter and 24% for the nine months.
<b>Adjusted EBITDA<sup>1</sup></b> .....	<b>25,651</b>	12,656	<b>72,289</b>	36,874	
Interest (excluding leases).....	905	559	2,191	1,700	Free cash flow <sup>2</sup> generated in the nine months was used to repay \$16.0 mil. of term debt and to contribute to the purchase of Clarion. Maintenance capital increase represents spending on warehouse upgrades.
Current income tax.....	6,497	3,188	20,441	9,476	
Maintenance capital.....	975	343	1,672	1,182	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> .
<b>Distributable cash flow<sup>2</sup></b> .....	<b>17,274</b>	8,566	<b>47,985</b>	24,516	
<i>Diluted per Unit</i> .....	<i>\$1.48</i>	<i>73.4¢</i>	<i>\$4.10</i>	<i>\$2.10</i>	
<b>Distributions</b> .....	<b>3,858</b>	3,882	<b>11,576</b>	11,674	
<i>Diluted per Unit</i> .....	<i>33.0¢</i>	<i>33.2¢</i>	<i>99.0¢</i>	<i>99.8¢</i>	
<i>Payout ratio<sup>3</sup></i> .....	<i>22%</i>	<i>45%</i>	<i>24%</i>	<i>48%</i>	
<b>Free cash flow<sup>2</sup></b> .....	<b>13,416</b>	4,684	<b>36,409</b>	12,842	
<b>Units outstanding (average)</b>					
<i>Diluted basis 000's</i> .....	<b>11,693</b>	11,693	<b>11,693</b>	11,693	
a) <i>Financial expenses less interest and bank refinancing fees</i>					

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

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

*October 29, 2020*

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#### **Liquidity and Financing**

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

Cash flow from operating activities was down \$7.0 mil. for the third quarter and up \$27.9 mil. for the nine months primarily due to higher profit from operations net of increased income tax payments of \$13.8 mil. and \$12.5 mil., respectively. In addition, during the third quarter, working capital increased by \$7.3 mil. mainly on higher inventory (\$9.7 mil.) and offset by higher payables (\$3.4 mil.). For the nine months, working capital increased \$5.2 mil. as higher receivables (\$13.0 mil.), inventory (\$2.3 mil.) and prepaids (\$4.9 mil.) were fully offset by higher payables (\$15.0 mil.).

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 third quarter were \$3.9 mil., with \$1.3 mil. declared for September which was paid October 14<sup>th</sup>.

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

Current income tax expense increases of \$3.3 mil. for the third quarter and \$11.0 mil. for the nine months 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. During the third quarter \$1.1 mil. of the holdback was paid for the closing working capital adjustment.

Maintenance capital expenditures for the nine months were \$1.7 mil. (2019 – \$1.2 mil.) mainly comprised of refurbishment of molds for replacement packaging, warehouse upgrades and computer equipment upgrades.

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

Credit facilities include a \$34.0 mil. term loan (2019 – \$19.5 mil.) with maturity on May 31, 2024 and up to \$65.0 mil. in revolving debt to fund future acquisitions and working capital expansion. 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 third quarter, \$1.0 mil. was repaid (2019 – \$4.0 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 Sept. 30, 2020, our leverage ratio was 0.4 times (2019 – 0.4 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**

*October 29, 2020*

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#### **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.

Fourth quarter revenues in October grew at 25% as the impact of coronavirus related demand wains. Ontario and Quebec have imposed a partial shutdown of clinics which will significantly affect Clarion sales going forward. It is important to consider the impact of the first 3 quarters as comparators for 2021 which will likely result in double digit negative growth (see page 3) and will likely result in Adjusted EBITDA<sup>1</sup> as a percent of sales migrating back towards 14.5% (see page 4). Also, the Exchange translation at the current exchange rate of U.S./Cdn. 76¢ 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.

Distributions for the fourth quarter are expected to be characterized as dividends. 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 nine months 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 September 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 nine months 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

## **Richards Packaging Income Fund**

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

October 29, 2020

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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 nine months 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 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, current 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,*

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

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

*October 29, 2020*

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*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.*

#### **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 nine months ended September 30*

*[Consolidated]*

<i>Cdn\$ thousands</i>	<b>Notes</b>	<b>Three months</b>		<b>Nine months</b>	
		<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
<b>Revenue</b>	3	<b>128,591</b>	87,273	<b>364,501</b>	254,623
Cost of sales		<b>97,235</b>	72,241	<b>279,308</b>	211,087
Administrative expenses	2	<b>6,472</b>	3,286	<b>15,838</b>	9,841
Foreign currency loss (gain)		<b>166</b>	(20)	<b>488</b>	(82)
<b>Profit from operations</b>		<b>24,718</b>	11,766	<b>68,867</b>	33,777
Financial expenses	2	<b>1,384</b>	874	<b>3,628</b>	2,517
Exchangeable shares					
Mark-to-market loss (gain)	7	<b>10,376</b>	(1,116)	<b>17,784</b>	5,209
Distributions		<b>152</b>	201	<b>458</b>	802
Share of loss (income) - Vision		<b>14</b>	9	<b>(79)</b>	35
Income tax expense (income)					
Current taxes	4	<b>6,497</b>	3,188	<b>20,441</b>	9,476
Deferred taxes	4	<b>(207)</b>	(269)	<b>(777)</b>	(691)
		<b>6,290</b>	2,919	<b>19,664</b>	8,785
<b>Net income for the period</b>		<b>6,502</b>	8,879	<b>27,412</b>	16,429
Basic income per Unit	7	<b>57.9¢</b>	80.2¢	<b>\$2.44</b>	\$1.48
Diluted income per Unit	7	<b>57.9¢</b>	68.1¢	<b>\$2.44</b>	\$1.48
<b>Other comprehensive income (loss)</b>					
<i>(subsequently recyclable to Net income)</i>					
Richards Packaging US					
Currency translation adjustment		<b>(1,642)</b>	795	<b>(913)</b>	(2,502)
<b>Comprehensive income for the period</b>		<b>4,860</b>	9,674	<b>26,499</b>	13,927

*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 September 30 and December 31*

*[Consolidated]*

<i>Cdn\$ thousands</i>	<b>Notes</b>	<b>Sept. 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		4,654	3,754	8,023	6,168
Accounts receivable	5	52,493	38,418	32,339	34,395
Inventory	6	78,062	57,951	58,692	60,663
Prepaid expenses and deposits		11,428	5,252	4,812	5,453
		<b>146,637</b>	105,375	<b>103,866</b>	106,679
<b>Long-term Assets</b>					
Leases		36,853	30,837	39,918	—
Plant and equipment		6,419	4,737	4,776	4,797
Leases receivable	6	—	2,341	2,215	—
Investment - Vision		716	690	637	726
Intangible assets	2	29,097	12,212	11,644	13,775
Goodwill	2	109,962	85,753	84,958	86,996
		<b>183,047</b>	136,570	<b>144,148</b>	106,294
		<b>329,684</b>	241,945	<b>248,014</b>	212,973
<b>LIABILITIES &amp; EQUITY</b>					
<b>Current Liabilities</b>					
Accounts payable and accruals		65,572	40,110	41,438	40,466
Income tax payable	4	(339)	929	674	1,189
Distributions payable		1,286	1,286	1,286	1,300
Due to previous shareholders	2	10,459	1,044	1,024	1,075
Exchangeable shares	7	38,720	18,579	20,935	27,900
		<b>115,698</b>	61,948	<b>65,357</b>	71,930
<b>Long-term Liabilities</b>					
Term debt	2	33,540	19,457	14,962	27,441
Lease obligations		32,562	29,150	37,385	—
Deferred income taxes	2,4	5,773	3,678	3,580	4,354
		<b>71,875</b>	52,285	<b>55,927</b>	31,795
<b>Equity</b>					
Unitholders' capital	7	5,276	20,861	16,314	14,710
Retained earnings		125,049	92,413	97,717	77,598
Accumulated other comprehensive income		11,786	14,438	12,699	16,940
		<b>142,111</b>	127,712	<b>126,730</b>	109,248
		<b>329,684</b>	241,945	<b>248,014</b>	212,973

**Richards Packaging Income Fund**

**STATEMENTS OF CHANGES IN EQUITY**

*Unaudited*

*For the three and nine months ended September 30*

*[Consolidated]*

*See accompanying notes*

<i>Cdn\$ thousands</i>	<b>Unitholders' capital</b>	<b>Retained earnings</b>	<b>AOCI<sup>a)</sup></b>	
<b>December 31, 2018</b>	14,710	77,598	16,940	109,248
IFRS 16 adjustment		865		865
Comprehensive income (loss)		16,429	(2,502)	13,927
Conversion	14,530			14,530
Distributions	(8,379)	(2,479)		(10,858)
<b>September 30, 2019</b>	20,861	92,413	14,438	127,712
<b>December 31, 2019</b>	<b>16,314</b>	<b>97,717</b>	<b>12,699</b>	<b>126,730</b>
Comprehensive income (loss)		27,412	(913)	26,499
Distributions	(11,038)	(80)		(11,118)
<b>September 30, 2020</b>	<b>5,276</b>	<b>125,049</b>	<b>11,786</b>	<b>142,111</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 nine months ended September 30*

*[Consolidated]*

<i>Cdn\$ thousands</i>	<b>Notes</b>	<b>Three months</b>		<b>Nine months</b>	
		<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
<b>OPERATING ACTIVITIES</b>					
Profit from operations		24,718	11,766	68,867	33,777
Add items not involving cash					
Plant, equipment & lease depreciation		2,417	2,021	6,906	5,895
Lease write down	6	—	—	2,690	—
Intangible assets amortization		652	464	1,627	1,363
Income tax payments	4	(15,716)	(1,900)	(22,248)	(9,736)
Changes in non-cash working capital	8	(7,322)	(611)	(5,230)	(6,609)
<b>Cash provided by operating activities</b>		<b>4,749</b>	<b>11,740</b>	<b>52,612</b>	<b>24,690</b>
<b>INVESTING ACTIVITIES</b>					
Acquisition, net of holdback	2	—	—	(49,826)	—
Due to previous shareholders	2	(1,092)	—	(1,092)	—
Additions to plant and equipment		(975)	(343)	(1,672)	(1,182)
<b>Cash used in investing activities</b>		<b>(2,067)</b>	<b>(343)</b>	<b>(52,590)</b>	<b>(1,182)</b>
<b>FINANCING ACTIVITIES</b>					
Repayment of term debt		(1,000)	(4,000)	(16,000)	(8,000)
Proceeds from debt for acquisition	2	—	—	35,000	—
Extinguish Clarion debt	2	—	—	(2,997)	—
Lease payments		(2,136)	(1,294)	(6,229)	(3,651)
Financial expenses paid (excluding leases)	2	(905)	(859)	(2,689)	(2,484)
Distributions paid to Exchangeable Shareholders		(152)	(250)	(458)	(852)
Distributions paid to Unitholders		(3,706)	(3,632)	(11,118)	(10,822)
<b>Cash used in financing activities</b>		<b>(7,899)</b>	<b>(10,035)</b>	<b>(4,491)</b>	<b>(25,809)</b>
<b>Net cash flow for the period</b>		<b>(5,217)</b>	<b>1,362</b>	<b>(4,469)</b>	<b>(2,301)</b>
Cash, beginning of period		9,468	2,355	8,023	6,168
Foreign exchange effect		403	37	1,100	(113)
<b>Cash, end of period</b>		<b>4,654</b>	<b>3,754</b>	<b>4,654</b>	<b>3,754</b>

*See accompanying notes*

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

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

*Unaudited*

*September 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 September 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, of which \$1,092 was paid after the acquisition date. 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>

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.

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

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

*Unaudited*

*September 30, 2020*

*[Cdn\$ thousands]*

The Statement of Net Income includes revenue of \$26,519 and net income of \$2,345 for the nine months ended September 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 \$34,000 [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 premium.

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

	<b>Three months</b>		<b>Nine months</b>	
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
<b>Revenue by geography</b>				
Canada	<b>58,240</b>	35,207	<b>145,532</b>	104,782
US	<b>70,351</b>	52,066	<b>218,969</b>	149,841
	<b>128,591</b>	87,273	<b>364,501</b>	254,623
<b>Revenue by end user</b>				
Cosmetics	<b>43,473</b>	25,580	<b>140,468</b>	76,502
Healthcare <sup>a)</sup>	<b>43,009</b>	19,864	<b>96,213</b>	58,575
Food, beverage & other	<b>42,109</b>	41,829	<b>127,820</b>	119,546
	<b>128,591</b>	87,273	<b>364,501</b>	254,623

*a) Healthcare includes \$19,911 and \$26,519 for Clarion in the three and nine months, respectively.*

## Richards Packaging Income Fund

### NOTES TO INTERIM FINANCIAL STATEMENTS

Unaudited

September 30, 2020

[Cdn\$ thousands]

#### 4. INCOME TAXES

	Notes	Three months		Nine months	
		2020	2019	2020	2019
Profit from operations	2	24,718	11,766	68,867	33,777
Financial expenses	2	(1,384)	(874)	(3,628)	(2,517)
<b>Income subject to income taxes</b>		<b>23,334</b>	10,892	<b>65,239</b>	31,260
Statutory tax rate		26.6%	27.1%	26.6%	26.9%
Income tax expense at statutory tax rate		6,198	2,947	17,328	8,400
<b>Deferred income taxes</b>	2	<b>207</b>	269	<b>777</b>	691
Current period adjustments					
Refinancing Intercompany notes <sup>a)</sup>		4	(48)	164	(144)
Leases	2	(7)	80	699	211
Foreign rate differential		(115)	(5)	36	324
Acquisition costs		—	—	580	—
Withholding tax		—	—	475	—
Other items		210	(55)	382	(6)
<b>Current income taxes</b>		<b>6,497</b>	3,188	<b>20,441</b>	9,476

a) future recovery associated with refundable dividend tax on hand of \$2,239 has not been recognized. Refundable tax on interest and capital gains were \$302 and fully taxable exchangeable share dividends gave rise to a \$144 recovery for the nine months ended September 30, 2020.

#### 5. ACCOUNTS RECEIVABLE

	September 30		December 31	
		Loss		Loss
Current	31,234	2.0%	22,219	0.1%
Up to 60 days past due	16,027	3.3%	8,301	0.3%
61 – 90 days past due	3,040	4.7%	651	0.7%
Over 90 days past due	4,277	18.9%	1,927	52.8%
<b>Trade receivables</b>	<b>54,578</b>	<b>3.8%</b>	33,098	3.2%
Allowance for doubtful accounts	(2,098)		(1,049)	
Supplier rebates	13		3	
Lease receivables	—		287	
	<b>52,493</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 \$1,174 (including \$nil for Clarion) and wrote off \$184 during the nine months ending September 30, 2020.

## Richards Packaging Income Fund

### NOTES TO INTERIM FINANCIAL STATEMENTS

Unaudited

September 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 \$11,154 reflects consideration for customers shut down due to coronavirus with an additional provision of \$912 for the nine months ending September 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
September 30, 2019	11,230,007	11,065,345	463,006	11,693,013	11,693,013
nine months		11,065,345	463,006		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>September 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>
<b>nine months</b>		<b>11,230,007</b>	<b>463,006</b>		<b>11,693,013</b>

Exchangeable shares mark-to-market loss reflects \$22.41 per Unit and \$38.41 per Unit price increases during the three and nine months ended September 30, 2020 to \$84.00 per Unit, respectively.

#### 8. ADDITIONAL CASH FLOW INFORMATION

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

	<b>Notes</b>	<b>Three months</b>		<b>Nine months</b>	
		<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
Accounts receivable	2	(1,207)	(2,977)	(13,007)	(4,310)
Inventory		(9,673)	(121)	(2,329)	1,655
Prepaid expenses and deposits		188	(212)	(4,943)	116
Accounts payable and accruals	2	3,370	2,699	15,049	(4,070)
		(7,322)	(611)	(5,230)	(6,609)

For the three and nine months ended September 30, 2020 the total foreign exchange translation excluded from the above values was \$1,082 gain [2019 – \$514 loss] and \$361 loss [2019 – \$1,294 gain] respectively.