Richards Packaging Income Fund

AUDIT COMMITTEE'S REPORT

The accompanying financial statements of Richards Packaging Income Fund (the "Fund") and Management's Discussion and Analysis included in this Annual Report have been prepared by management and approved by the Board of Trustees of the Fund. The financial statements were prepared in accordance with International Financial Reporting Standards and, where appropriate, reflect management's best estimates and judgments. Management is responsible for the accuracy, integrity and objectivity of the consolidated financial statements within reasonable limits of materiality and for the consistency of financial data included in the text of the Annual Report dated March 5, 2021.

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

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

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

"Susan Allen"	*"Enzio Di Gennaro"*
Chair Audit Committee	Chief Financial Officer Richards Packaging Inc.

Toronto, Ontario
March 5, 2021

Independent auditor's report

To the Unitholders of Richards Packaging Income Fund

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Richards Packaging Income Fund and its subsidiaries (together, the Company) as at December 31, 2020 and 2019, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

What we have audited

The Company's consolidated financial statements comprise:

- the consolidated statements of financial position as at December 31, 2020 and 2019;
- the consolidated statements of net income and comprehensive income for the years then ended;
- the consolidated statements of changes in equity for the years then ended;
- the consolidated statements of cash flows for the years then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

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

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

Independence

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

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2020. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Valuation of intangible assets acquired in the Clarion Medical Technologies Inc. (Clarion) business combination *Refer to note 2 – Summary of significant accounting policies, note 3 – Acquisition and note 14 – Intangible assets and goodwill to the consolidated financial statements.* The Company acquired Clarion for a total consideration of $60.4 million in 2020, consisting of $49.9 million of cash and $10.5 million of holdback. The fair value of the identifiable assets acquired included $22.5 million in intangible assets, which primarily relate to customer relationships and trademarks. Management applied significant judgment in estimating the fair value of the intangible assets. To estimate the fair value of the intangible assets, management used the multi-period excess earnings method to value customer relationships and the relief from royalty method to value trademarks using discounted cash flow models. Management developed significant assumptions related to revenue and gross margin forecasts, customer retention rates, royalty rates and discount rates. We considered this a key audit matter due to the significant judgment applied by management in estimating the fair value of the intangible assets, including the development of significant assumptions. This, in turn, led to a high degree of auditor judgment, subjectivity and effort in performing procedures and evaluating audit evidence relating to the significant assumptions used by management. The audit effort involved the use of professionals with specialized skill and knowledge in the field of valuation.	Our approach to addressing the matter included the following procedures, among others: • Tested how management estimated the fair value of the customer relationships and trademarks, which included the following: – Read the share purchase agreement. – Evaluated the appropriateness of management's multi-period excess earnings and relief from royalty methods and discounted cash flow models and tested the mathematical accuracy thereof. – Tested the underlying data used by management in the discounted cash flow models. – Evaluated the reasonableness of significant assumptions used by management related to revenue and gross margin forecasts, and customer retention rates by considering the past performance of Clarion, as well as economic and industry data. – Evaluated, with the assistance of professionals with specialized skill and knowledge in the field of valuation, the appropriateness of management's selected valuation methods, specifically, the multi-period excess earnings method, relief from royalty method, and discounted cash flow models, as well as certain significant assumptions such as royalty rates and discount rates.

Other information

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

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

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

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

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

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

(Signed) "PricewaterhouseCoopers LLP"

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Ontario
March 5, 2021

Richards Packaging Income Fund

STATEMENTS OF NET INCOME AND COMPREHENSIVE INCOME

For the years ended December 31 *[Consolidated]*

Cdn$ thousands, unless otherwise noted	Notes	2020	2019
Revenue	*3,4*	**489,235**	334,148
Cost of sales	*5*	**376,549**	276,661
Administrative expenses	*3,5*	**19,516**	13,461
Foreign currency gain		**(81)**	(92)
Profit from operations		**93,251**	44,118
Financial expenses	*15*	**5,126**	3,268
Exchangeable shares			
Mark-to-market loss	*16*	**14,474**	6,724
Distributions	*16*	**611**	955
Share of loss (income) - Vision	*18*	**(104)**	69
Income tax expense (income)			
Current taxes	*6*	**24,157**	12,119
Deferred taxes	*6*	**(1,156)**	(751)
		23,001	11,368
Net income	*3*	**50,143**	21,734
Basic and diluted income per Unit	*16*	***$4.47***	*$1.97*
Other comprehensive loss			
(subsequently recyclable to Net income)			
Currency translation adjustment - Richards US		**(1,478)**	(4,241)
Comprehensive income		**48,665**	17,493

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

Richards Packaging Income Fund

STATEMENTS OF FINANCIAL POSITION

As at December 31 *[Consolidated]*

Cdn$ thousands	Notes	2020	2019
ASSETS			
Current Assets			
Cash and cash equivalents	*7*	**7,720**	8,023
Accounts receivable	*8*	**49,802**	32,339
Inventory	*9*	**88,251**	58,692
Prepaid expenses and deposits	*10*	**10,942**	4,812
		156,715	103,866
Long-term Assets			
Leases	*12*	**46,553**	39,918
Plant and equipment	*13*	**6,618**	4,776
Leases receivable	*12*	**—**	2,215
Investment - Vision	*18*	**667**	637
Intangible assets	*14*	**31,678**	11,644
Goodwill	*3,14*	**110,654**	84,958
		196,170	144,148
		352,885	248,014
LIABILITIES & EQUITY			
Current Liabilities			
Accounts payable and accruals	*11*	**71,690**	41,438
Income tax payable		**(438)**	674
Distributions payable	*16*	**1,286**	1,286
Due to previous shareholder	*3,11*	**10,366**	1,024
Exchangeable shares	*16*	**35,409**	20,935
		118,313	65,357
Long-term Liabilities			
Term debt	*3,15*	**23,559**	14,962
Lease obligations	*12*	**42,436**	37,385
Deferred income taxes	*6*	**8,006**	3,580
		74,001	55,927
Equity			
Unitholders' capital	*16*	**5,276**	16,314
Retained earnings		**144,074**	97,717
Accumulated other comprehensive income		**11,221**	12,699
		160,571	126,730
		352,885	248,014
Contingencies	*20*		

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

STATEMENTS OF CHANGES IN EQUITY

For the years ended December 31 *[Consolidated]*

Cdn$ thousands	**Notes**	**Unitholders' capital**	**Retained earnings**	**AOCI[a)]**	**Equity**
December 31, 2018		14,710	77,598	16,940	109,248
Leases adjustment[c)]			865		865
Comprehensive income (loss)			21,734	(4,241)	17,493
Distributions[b)]	*16*	(12,085)	(2,480)		(14,565)
Exchangeable share conversion	*16*	13,689			13,689
December 31, 2019		**16,314**	**97,717**	**12,699**	**126,730**
Comprehensive income			**50,143**	**(1,478)**	**48,665**
Distributions[b)]	*16*	**(11,038)**	**(3,786)**		**(14,824)**
December 31, 2020		**5,276**	**144,074**	**11,221**	**160,571**

a) AOCI - Accumulated other comprehensive income (loss) reflects the cumulative translation adjustment related to Richards US.
b) The retained earnings amounts represent capital dividends in 2019 and taxable dividends in 2020 paid to Unitholders.
c) Represents a January 1st adjustment to opening retained earnings associated with adopting IFRS 16, Leases.

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

Richards Packaging Income Fund

STATEMENTS OF CASH FLOWS

For the years ended December 31 *[Consolidated]*

Cdn$ thousands	Notes	2020	2019
OPERATING ACTIVITIES			
Profit from operations		**93,251**	44,118
Add items not involving cash			
Plant, equipment & lease depreciation	*12,13*	**9,839**	7,955
Lease write down	*12*	**520**	—
Intangible assets amortization	*14*	**2,386**	1,812
Income tax payments		**(25,190)**	(12,634)
Dividends - Vision	*18*	**75**	20
Changes in non-cash working capital	*21*	**(6,538)**	(1,305)
Cash provided by operating activities		**74,343**	39,966
INVESTING ACTIVITIES			
Acquisition, net of holdback		**(49,918)**	—
Due to previous shareholders	*3,11*	**(2,000)**	—
Additions to plant and equipment	*13*	**(2,661)**	(1,761)
Cash used in investing activities		**(54,579)**	(1,761)
FINANCING ACTIVITIES			
Repayment of term debt	*15*	**(26,000)**	(12,500)
Proceeds from debt for acquisition	*3*	**35,000**	—
Extinguish Clarion debt	*3*	**(2,997)**	—
Lease payments	*12*	**(8,336)**	(6,106)
Financial expenses paid (excluding leases)	*15*	**(3,696)**	(2,223)
Distributions paid to Exchangeable Shareholders	*16*	**(611)**	(1,006)
Distributions paid to Unitholders	*16*	**(14,824)**	(14,527)
Cash used in financing activities		**(21,464)**	(36,362)
Net cash flow		**(1,700)**	1,843
Cash and cash equivalents, beginning of year	*7*	**8,023**	6,168
Foreign exchange effect		**1,397**	12
Cash and cash equivalents, end of year	*7*	**7,720**	8,023

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

NOTES TO FINANCIAL STATEMENTS

1. FORMATION OF THE FUND

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Principles of consolidation

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

Foreign currency translation

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

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

Use of estimates

Preparation of financial statements required management to make estimates and assumptions which affect reported amounts of assets, liabilities, revenue and expenses. By their nature, these estimates are subject to measurement uncertainty and are reviewed periodically. Any adjustments deemed necessary are made prospectively in the period in which they are identified. Management believes that the expected credit losses, reserve for slow moving inventory, the establishment of any contingent consideration and the fair value of the intangible assets associated with the Clarion acquisition, and the testing for impairment of goodwill, intangibles and trademarks are accounting estimates that involve significant judgment and complexity.

Revenue

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

Income taxes

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

Inventory

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

Leases

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

The present value of rent receivable from the subleases were reflected as leases receivable with the associated financial income calculated utilizing the actuarial method at the implied rate.

Plant and equipment

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

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

Business combinations, Intangible assets and Goodwill

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

Impairment testing of long-term assets

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

Exchangeable shares

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

3. ACQUISITION

On May 31, 2020 Richards Packaging acquired all of the outstanding shares of Clarion Medical Technologies Inc., a leading Canadian distributor of medical aesthetic, vision care and surgical equipment and consumables, for an aggregate purchase price of $60,418, subject to contingent consideration based on future earnings for 2021 or 2022 without limitation, at the seller's option, due 90 days after the year then ended. As at December 31, 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, including a $3,000 for a working capital indemnity, of which $2,000 has been paid, and an EBIT guarantee of $7,500 for the first twelve months following the acquisition date. An additional $862 has been recognized for the former owner's proportionate share of a tax refund for a donation made. The holdback is due to be settled in August 2021. 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.

December 31, 2020 and 2019 [Cdn$ thousands, unless otherwise noted]

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

	$		$
Current assets	**25,720**	Current liabilities	**7,067**
Plant, equipment and leases	**2,277**	Lease obligations	**892**
Trademarks	**7,300**	Deferred income taxes	**5,616**
Customer relationships	**15,200**	Clarion debt	**2,997**
Total assets acquired	**50,497**	**Total liabilities assumed**	**16,572**
Fair value of net assets acquired			**33,925**
Goodwill			**26,493**
Aggregate purchase price			**60,418**
Holdback			**(10,500)**
Acquisition, net of contingent consideration			**49,918**

Associated acquisition fees of $1,118 were recognized as administrative expenses. Immediately after the acquisition, the $2,997 of Clarion debt was paid off by Richards Packaging.

The Statement of Net Income includes revenue of $48,525 and net income of $4,642 for the year ended December 31, 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.

4. REVENUE & SEGMENTED INFORMATION

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

	Canada		**United States**	
	2020	**2019**	**2020**	**2019**
Revenue	**214,288**	140,313	**274,947**	193,835
Long-term assets	**113,516**	67,986	**82,654**	76,162

December 31, 2020 and 2019 [Cdn$ thousands, unless otherwise noted]

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

	2020	2019
Revenue by end user		
Cosmetics	**177,201**	99,504
Healthcare[a)]	**144,233**	78,509
Food, beverage & other	**167,801**	156,135
	489,235	334,148

a) Healthcare includes $48,525 in 2020 for Clarion and $ 6,831 [2019 - $2,956] of revenue recognized over time from the sale of maintenance and warranty service plans

5. EXPENSES BY NATURE

	2020	2019
Salaries and wages	**34,659**	24,687
Benefits	**6,831**	5,198
Bonuses	**4,985**	1,857
Long-term incentive plan	**180**	180
Employee compensation	**46,655**	31,922
Inventory sold and services provided	**301,708**	218,949
Inventory provisions	**1,955**	991
Selling, distribution and other costs	**32,982**	27,593
Depreciation and amortization	**12,225**	9,767
Lease expenses	**540**	900
Cost of sales and administrative expenses	**396,065**	290,122

Management is eligible to participate in the long-term incentive plan [the “LTIP”]. Awards for the cash reimbursement of Units purchased under the LTIP will vest over a three-year period, with one-third of the award vesting each year. The Trustees committed to annual funding of $200 for three years starting in 2021. Total salaries and benefits for executive officers was $2,386 [2019 – $1,278]. Trustee/Directors are eligible to participate in a deferred share unit (“DSU”) plan where they may elect to receive their annual fees in DSU’s. Amounts deferred under the DSU plan and accrued distributions earned thereon vest immediately, are accrued at $263 and can be redeemed only when the DSU plan participant ceases to serve.

December 31, 2020 and 2019 [Cdn$ thousands, unless otherwise noted]

6. INCOME TAXES

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

	2020	2019
Profit from operations	**93,251**	44,118
Financial expenses	**(5,126)**	(3,268)
Income subject to income taxes	**88,125**	40,850
Statutory tax rate	*26.6%*	*26.8%*
Income tax expense at statutory tax rate	**23,406**	10,928
Deferred income taxes	**1,156**	751
Current period adjustments		
Refundable dividend tax a)	**(1,762)**	129
Donation	**(575)**	—
Foreign rate differential	**707**	155
Acquisition costs	**661**	—
Withholding tax	**475**	—
Other items	**89**	156
Current income taxes	**24,157**	**12,119**

a) future recovery associated with refundable dividend tax on hand of $493 [2019 - $2,081] has not been recognized. Refundable tax on interest and capital gains were $246 and fully taxable exchangeable share dividends gave rise to a $1,834 recovery [2019 - $192].

The significant components of deferred taxes are outline below:

	2020	expense/ (income)	additions/ f/x b)	2019	expense/ (income)	f/x b)	IFRS 16 adjustment	2018
Deferred tax liabilities								
Customer relationships a)	**5,634**	**(604)**	**4,214**	**2,024**	(487)	(41)		**2,552**
Patents and trademarks a)	**2,919**	**—**	**1,747**	**1,172**		(56)		**1,228**
Plant and equipment	**1,175**	**376**	**(145)**	**944**	48	(31)		**927**
Other	**8**	**(51)**	**(1)**	**60**	(19)	(7)		**86**
Deferred tax assets								
Loss carryforward for tax	**(118)**	**(118)**	—	—	—	—		—
Leases	**(696)**	**(528)**	**23**	**(191)**	(282)		**91**	—
Non-cash working capital	**(916)**	**(231)**	**(256)**	**(429)**	(11)	21		**(439)**
	8,006	**(1,156)**	**5,582**	**3,580**	(751)	(114)	**91**	**4,354**

a) 2020 customer relationships includes $1,419 and trademarks $1,749 for Clarion. Reversal of intangible assets will not give rise to income taxes

b) f/x = foreign exchange differences

December 31, 2020 and 2019 [Cdn$ thousands, unless otherwise noted]

Unremitted earnings in Richards US as of December 31, 2020 of US$58,068 is permanently reinvested and therefore the associated withholding tax is not recognized.

7. CASH

	2020	2019
Cash at bank[a)]	**9,045**	8,857
Demand deposits	**597**	814
Issued and outstanding cheques	**(1,922)**	(1,648)
	7,720	8,023

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

8. ACCOUNTS RECEIVABLE

	2020 $	Expected Loss %	2019 $	Expected Loss %
Current	**35,669**	***0.1%***	22,219	*0.1%*
Up to 60 days past due	**11,642**	***0.2%***	8,301	*0.3%*
61 – 90 days past due	**801**	***1.6%***	651	*0.7%*
Over 90 days past due	**2,662**	***58.5%***	1,927	*52.8%*
Trade receivables	**50,774**	***3.2%***	33,098	*3.2%*
Expected credit losses[a)]	**(1,614)**		(1,049)	
Supplier rebates	**642**		3	
Lease receivables	—		287	
	49,802		32,339	

a) Management reassessed expected losses impacted by the coronavirus, after adding $40 for Clarion, and recognized new provisions of $645 [2019 – $317] and wrote off $168 [2019 – $151]. The remaining non-cash change in the accounts receivable reflects foreign exchange differences.

9. INVENTORY

	2020	2019
Goods purchased for resale	**88,087**	62,132
Goods in transit	**8,490**	4,253
Manufacturing raw materials	**572**	545
Manufactured finished goods	**1,618**	1,539
Reserve for slow moving inventory[a)]	**(10,516)**	(9,777)
	88,251	58,692

a) Management recorded a reserve for slow moving inventory of $1,955 [2019 – $991], which reflects consideration for customers shut down due to the coronavirus, and recognized write-offs of $1,452 [2019 – $1,128]. The remaining non-cash change in inventory provision reflects foreign exchange differences.

December 31, 2020 and 2019 [Cdn$ thousands, unless otherwise noted]

10. PREPAID EXPENSES AND DEPOSITS

	2020	2019
Deposits for commitment to purchase goods	**5,547**	1,402
Deferred costs on maintenance contracts	**2,309**	1,103
Deposits for other commitments	**1,122**	1,042
Rent	**1,053**	942
Other deposits	**911**	323
	10,942	4,812

11. ACCOUNTS PAYABLE AND ACCRUALS

	2020	2019
Trade payables	**47,092**	27,144
Rebates	**885**	596
Staffing expenses[a)]	**9,000**	4,091
Professional fees	**570**	486
Sales tax	**1,327**	596
Deferred revenue on maintenance contracts	**4,409**	1,340
Lease obligations - current portion	**6,625**	6,065
Other payables	**1,782**	1,120
	71,690	41,438

a) Management bonuses of $4,553 [2019 - $1,621] included in staffing expenses have been fully paid subsequent to year end.

Included in Trade payables is $405 [2019 – $214] associated with payables to Vision *[note 18]*.

Included in Due to previous shareholder is a U.S.$788 non-interest bearing demand loan owing to a former shareholder of a previous acquisition and a $9,362 holdback in connection with the Clarion acquisition.

December 31, 2020 and 2019 [Cdn$ thousands, unless otherwise noted]

12. LEASES AND LEASE OBLIGATIONS

	Property	Computer equipment	Warehouse & office	Leases	Lease Obligations
December 31, 2018					
Current portion					5,280
Leases and lease obligation	28,333	11	357	28,701	26,284
Additions	18,802			18,802	18,787
Terminations	(836)			(836)	(844)
Amortization	(6,227)	(2)	(64)	(6,293)	
Payments, excluding interest					(5,443)
Foreign exchange differences	(454)		(2)	(456)	(614)
December 31, 2019					
Carrying value	45,845	11	355	46,211	
Accumulated amortization	(6,227)	(2)	(64)	(6,293)	
Current portion					6,065
Leases and lease obligation	39,618	9	291	39,918	37,385
Additions/acquisitions	16,824		111	16,935	14,702
Terminations	(2,357)			(2,357)	(2,598)
Amortization	(7,665)	(2)	(76)	(7,743)	
Payments, excluding interest					(6,541)
Foreign exchange differences	(162)		(38)	(200)	48
December 31, 2020					
Carrying value	60,150	11	428	60,589	
Accumulated amortization	(13,892)	(4)	(140)	(14,036)	
Current portion					6,625
Leases and lease obligation	46,258	7	288	46,553	42,436

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

	2022	2023	2024	2025	beyond
Lease obligations	7,055	7,048	6,910	4,797	16,626

The opening lease receivable balance of $287 current and $2,215 long term was written down by $448 in Cost of Sales with the remaining $2,054 added to Leases. The write down was for a sublease because the tenant's operation had been significantly impacted by the coronavirus and the addition is a result of the assignment of the lease to the landlord.

December 31, 2020 and 2019 [Cdn$ thousands, unless otherwise noted]

13. PLANT AND EQUIPMENT

	Manufacturing Equipment	Moulds	Warehouse & office	Computer equipment	Leaseholds	Total
December 31, 2018						
Carrying value	3,064	4,481	1,968	1,038	979	11,530
Accumulated Depreciation	(2,099)	(2,764)	(736)	(610)	(524)	(6,733)
Net book value	965	1,717	1,232	428	455	4,797
Additions	133	868	158	348	254	1,761
Fully depreciated assets	(232)	(578)	(206)	(202)	(159)	(1,377)
Depreciation	(245)	(814)	(227)	(179)	(197)	(1,662)
Foreign exchange differences	69	(130)	(60)	0	1	(120)
December 31, 2019						
Carrying value	3,034	4,641	1,860	1,184	1,075	11,794
Accumulated Depreciation	(2,112)	(3,000)	(757)	(587)	(562)	(7,018)
Net book value	922	1,641	1,103	597	513	4,776
Additions	**247**	**671**	**81**	**374**	**1,288**	**2,661**
Clarion acquisition			**1,047**	**62**	**276**	**1,385**
Fully depreciated assets				**(524)**	**(20)**	**(544)**
Depreciation	**(295)**	**(801)**	**(468)**	**(227)**	**(305)**	**(2,096)**
Foreign exchange differences	**(75)**	**(0)**	**5**	**(17)**	**(21)**	**(108)**
December 31, 2020						
Carrying value	**3,206**	**5,312**	**2,993**	**1,079**	**2,598**	**15,188**
Accumulated Depreciation	**(2,407)**	**(3,801)**	**(1,225)**	**(290)**	**(847)**	**(8,570)**
Net book value	**799**	**1,511**	**1,768**	**789**	**1,751**	**6,618**

14. INTANGIBLE ASSETS AND GOODWILL

In connection with the Clarion acquisition, Management developed significant assumptions related to revenue and gross margin forecasts, customer retention rates, royalty rates and discount rates. As a result, no contingent consideration has been recognized, customer relationships were valued using 15 years cash flows and a 13.4% discount rate and trademarks were valued using 6 years cash flows (representing the term to expiry of the trademarks), a 1.5% royalty rate, and a 13.4% discount rate.

Intangible assets and Goodwill are not deductible for tax purposes.

Goodwill and trademarks were assessed for impairment by calculating the recoverable amount determined based on the value in use. Five-year cash flow budgets, prepared using growth rates experienced in the industry and approved by the Board, were used with the application of a pre-tax discount rate of 13.4% [2019

December 31, 2020 and 2019 [Cdn$ thousands, unless otherwise noted]

– 13.4%]. For periods beyond the budget period, cash flows were extrapolated using long term average growth rates of 2.7% [2019 – 3.0%]. Reasonably possible changes in key assumptions would not cause the recoverable amount to fall below the carrying value.

	Customer relationships	Trade-marks	Computer software	Intangible assets	Goodwill
December 31, 2018					
Carrying value	22,596	4,323	556	27,475	86,996
Accumulated amortization	(13,275)		(425)	(13,700)	
Net book value	9,321	4,323	131	13,775	86,996
Amortization	(1,766)		(46)	(1,812)	
Foreign exchange differences	(143)	(197)	21	(319)	(2,038)
December 31, 2019					
Carrying value	21,968	4,126	577	26,671	84,958
Accumulated amortization	(14,556)		(471)	(15,027)	
Net book value	7,412	4,126	106	11,644	84,958
Amortization	**(2,367)**		**(19)**	**(2,386)**	
Clarion acquisition	**15,200**	**7,300**		**22,500**	**26,493**
Foreign exchange differences	**(2)**	**(76)**	**(2)**	**(80)**	**(797)**
December 31, 2020					
Carrying value	**36,923**	**11,350**	**575**	**48,848**	**110,654**
Accumulated amortization	**(16,680)**		**(490)**	**(17,170)**	
Net book value	**20,243**	**11,350**	**85**	**31,678**	**110,654**

15. REVOLVING AND TERM DEBT

Richards Packaging has available both revolving and term debt credit facilities. On May 31, 2020, the revolving and term debt credit facilities were expanded and extended to May 31, 2024 at a cost of $516 which will be deferred and amortized over the term of the facilities. The term facility of $24,000 [2019 – $15,000] bears interest at the bankers' acceptance borrowing rate plus a premium of 0.95% to 1.7%. The effective interest rate at December 31, 2020 was 1.7 % [2019 – 3.2%]. Voluntary repayments of term debt of $26,000 [2019 – $12,500] were made during the year ended December 31, 2020. 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.

December 31, 2020 and 2019 [Cdn$ thousands, unless otherwise noted]

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

	2020	2019
Interest expense	**432**	722
Credit card fees	**2,340**	1,295
Credit facility charges	**445**	206
Amortization of deferred financing fees	**113**	22
Sublease financial income	—	(489)
Lease obligation interest	**1,795**	1,512
	5,125	3,268

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

16. UNITS AND EXCHANGEABLE SHARES

Number outstanding	Units basic	Weighted average	Exchangeable shares	Units diluted	Weighted average
December 31, 2018	10,893,365	10,893,365	799,648	11,693,013	11,693,013
Share conversion	336,642		(336,642)		
December 31, 2019	11,230,007	11,021,566	463,006	11,693,013	11,693,013
December 31, 2020	**11,230,007**	**11,230,007**	**463,006**	**11,693,013**	**11,693,013**

Exchangeable shares mark-to-market loss reflects a unit price increase during the year ended December 31, 2020 of $31.26 [2019 – $10.59] to $76.85 per Unit. The impact on income per Unit of the mark-to-market loss and distributions to exchangeable shareholders is anti-dilutive which reverts back to basic income per Unit [2019 – anti-dilutive].

Fund Units

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

The Fund initiated a normal course issuer bid on March 14, 2020 to purchase up to 500,000 Units prior to March 13, 2021. There were no purchases during the year. During 2019, 336,642 exchangeable shares were converted to Units at an average value of $43.16/Unit.

Contributed surplus

The components of Unitholders' capital include unit capital and contributed surplus. The conversion in 2019 of 336,642 exchangeable shares resulted in a $10,662 increase.

Exchangeable shares

Exchangeable shares were issued by Richards Packaging to officers on the initial public offering and in connection with two business acquisitions. The exchangeable shares issued by Richards Packaging Holdings Inc. and Richards Packaging Holdings (US) Inc. are redeemable and are retractable by the shareholders at any time. A retraction or redemption of exchangeable shares will be paid in Units on a one-for-one basis. The exchangeable shares issued by Richards Packaging Holdings (US) Inc. were converted to Units of the Fund on August 15, 2019. Exchangeable shares carry the right to vote at any meeting that Unitholders are entitled to vote on the same basis.

Distributions

Distributions are made monthly to Unitholders of record on the last business day of each month and paid on the 14th day of the following month. Monthly distributions in 2020 were $1,235, or 11¢ per Unit.

Distributions paid to exchangeable shareholders are not subordinated to distributions to Unitholders and are declared on the same basis net of applicable taxes. Distributions are made monthly to shareholders of record on the last business day of each month and paid on or about the 14th day of the following month. Monthly distributions in 2020 were $51.

17. CAPITAL STRUCTURE

Capital consists of Unitholders' equity, exchangeable shares and secured credit facilities. Capital levels are maintained to meet the following objectives: optimizing the cost of capital at acceptable risk levels while providing an appropriate return to its Unitholders and shareholders; balancing the interests of equity shareholders, exchangeable shareholders and debt holders; maintaining compliance with financial covenants; and preserving financial flexibility to benefit from potential opportunities as they arise. The leverage ratio covenant was not to exceed 2.75 and the ratio at December 31, 2020 was 0.20 [2019 – 0.29]. In addition, the fixed charge coverage ratio covenant was greater than 2.0 times at 6.95 [2019 – 4.70]. The minimum net worth covenant was $70,000 and the net worth was $188,036 [2019 – $147,666].

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

December 31, 2020 and 2019 [Cdn$ thousands, unless otherwise noted]

18. RELATED PARTY TRANSACTIONS AND INVESTMENT - VISION

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

	2020	**2019**
Leases of facilities from entities related to certain officers	**1,062**	995
Product purchases from Vision	**6,358**	6,391

Richards Packaging commitments for leases of facilities from entities related to officers of $7.8 million extend to 2028.

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

	2020	**2019**		**2020**	**2019**
Statement of financial position					
Assets			**Liabilities**		
Current assets	**1,680**	1,288	Current liabilities	**924**	541
Plant and equipment	**577**	528			
Total assets	**2,257**	1,816	**Net assets**	**1,333**	1,275
Statement of net income					
Revenue				**6,358**	6,391
Expenses				**6,150**	6,529
Net income				**208**	(138)

The increase of $30 [2019 – $89 decrease] in Investment – Vision represents share of net income of $104 [2019 – $69 net loss] increased by dividends received of $75 [2019 – $20].

19. FINANCIAL INSTRUMENTS

Fair value

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

Credit risk

Financial assets exposed to credit risk consist primarily of trade receivables arising from the sale of goods. Concentration of credit risk is limited due to the large number of customers and geographical dispersion. As at December 31, 2020, no customer represented 5% or more of accounts receivable or sales.

Credit quality is assessed prior to establishing customer accounts. Management continuously monitors the collection of overdue accounts. For customers with overdue accounts, internal collection staff takes appropriate action, including the placement of accounts on hold, with third party collection or legal action taken. On a quarterly basis, the expected credit losses is reviewed by management. The expected credit losses as at December 31, 2020 is sufficient to cover impaired accounts *[note 8]*.

Inventory obsolescence risk

Richards Packaging is exposed to inventory obsolescence due to customer insolvency when they have unique packaging, maturing product life cycles for stock items and large purchases due to economic order quantities. The inventory provision is assessed on a specific item-by-item basis considering a number of factors including aging, recent sales and market demand. Management continually monitors over-aged inventory with a focus to realize value before obsolescence occurs. On a quarterly basis, the reserve for inventory obsolescence is reviewed by management. The reserve as at December 31, 2020 is sufficient to cover losses due to inventory obsolescence *[note 9]*.

Liquidity risk

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

Interest rate risk

Exposure to interest rate risk arises due to variable interest rates on the revolving and term debt credit facilities. A 1.0% movement in interest rates would have impacted net income by $179.

Foreign currency risk

Exposure to U.S. and Euro currency fluctuations arises on cross-border transactions and on the translation of cash flows of Richards US. A foreign currency gain of $81 has been recorded for the year ended December 31, 2020 [2019 – $92 gain] relating to cross-border transactions. A 1.0% movement in foreign currency rates would have impacted net income by $555.

December 31, 2020 and 2019 [Cdn$ thousands, unless otherwise noted]

20. CONTINGENCIES

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

21. ADDITIONAL CASH FLOW INFORMATION

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

	2020	**2019**
Accounts receivable	**(11,210)**	1,484
Inventory	**(14,797)**	140
Prepaid expenses and deposits	**(4,723)**	496
Accounts payable and accruals	**24,192**	(3,425)
	(6,538)	(1,305)

For the year ended December 31, 2020, the foreign exchange translation loss excluded from the above was $2,185 [2019 – $2,099 loss].