RPI.UN LISTED ON TMX Toronto Stock Exchange



# Good Things Come in

RICHARDS

RICHARDS PACKAGING

Richards

McKernan
PACKAGING CLEANING HOUSE

DISPILL

HEALTHMARK

CLARION
MEDICAL TECHNOLOGIES


# INVESTMENT PROPOSITION

## FINANCIAL MARKETS

- GDP in Canada and the US increased by 2.1% and 1.0% in the fourth quarter and 3.4% and 2.1% for the year, respectively
- Commodities strengthened then fell in 2022 due to the war in Ukraine; U.S./Cdn. exchange rate diverged on flight to quality; now +/-$0.74
- Governments in tightening mode; expect to continue to combat inflation currently at 6.4%

## DISTRIBUTION STRESS TEST

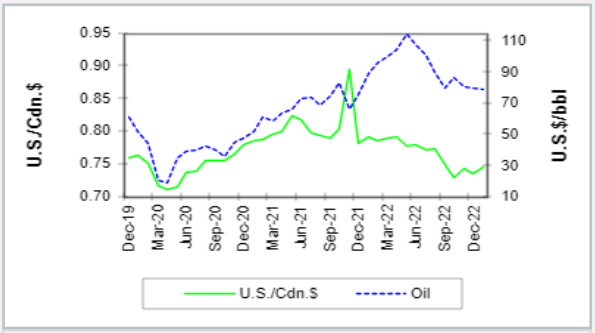
- Pro forma distributable cash reflects the impact of long-term interest at 5%, a U.S./Cdn. 80¢ and 13% higher US taxes likely to be imposed
- Special distribution in March 2023 of 38¢ (2022 69¢) brings payout ratio to 50% for both years on a proforma basis
- Payout target of 50% due to economic uncertainty

## RPI.UN TRADING ACTIVITY

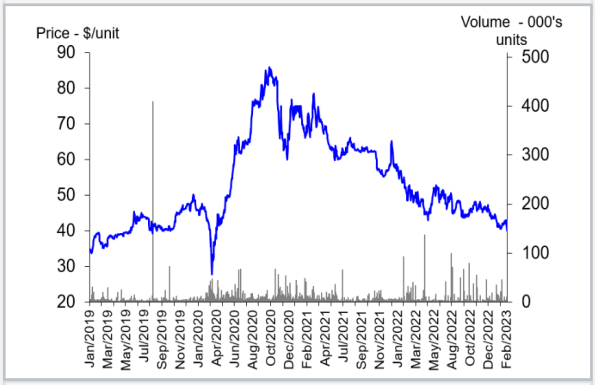
- Price momentum in 2022 back down to pre-coronavirus levels
- 2020 reflects coronavirus impact and Clarion acquisition in May
- Debt to Adjusted EBITDA[1] up 0.7x now 0.9x on acquisition of Clarion
- Insider (Tim McKernan) sold 400,000 in August 2019; 275,000 units purchased 2021, now 28% overall insider ownership

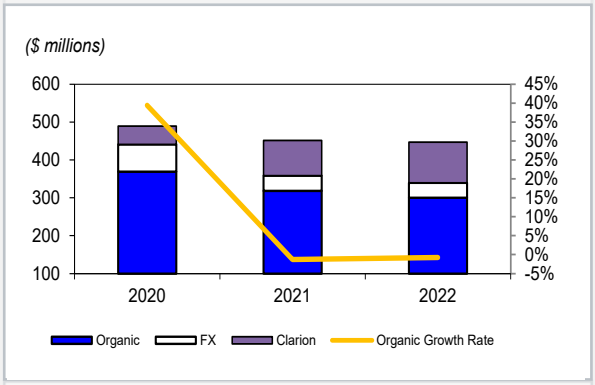
## REVENUE

- Organic contraction 0.8%, or $3.7 mil., reflects $10 mil., or 2.3%, decrease due to unwinding of coronavirus effects and $13 mil., or 3.0% decrease due to oversupply of pumps & sprayers offset by organic growth of $20 mil.
- Richards US translation negative impact of $0.8 mil. (2021 $31 mil.) with average FX rates at U.S./Cdn. 77¢
- Changes in mix: Richards US decrease 6% to 38%, as cosmetics dropped 6% and healthcare and food & beverage were up 4% and 2%




| *($ millions)* | 2022 | Adj's | Proforma |
|---|---|---|---|
| Adjusted EBITDA | 64.4 | (0.8) | 63.6 |
| Interest | (5.3) | (1.0) | (6.3) |
| Taxes | (14.8) | (2.7) | (17.5) |
| Maintenance capital | (1.5) | 0.4 | (1.1) |
| Distributable cash flow | 42.8 | | 38.7 |
| Current distribution level | 15.1 | | 15.1 |
| Payout Ratio | 35% | | 39% |



# PERFORMANCE SNAPSHOT

## ADJUSTED EBITDA[1]

- Adjusted EBITDA down $7 mil. on lower revenue, at 14.4% of sales (2021 $27 mil.)
- Inventory provision of $1 mil. reduced to reflect long-term historical levels (2021 $6 mil.) and a $9 mil. reduction in inventory during the fourth quarter
- FX currency decreased $1 mil. (2021 $11 mil.) on lower Richards US volume despite a drop of U.S./Cdn. 3¢ (2021 up 6¢)

## NET INCOME

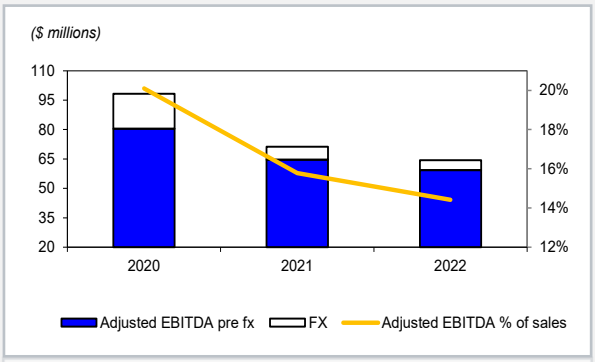
- Net Income up $43 mil., or $3.66/Unit, to $3.30/Unit (2021 down $48 mil.) without $48 mil. contingent consideration for Clarion offset by lower Adjusted EBITDA net of taxes
- Exchangeable share mark-to-market gain up $2 mil. or $0.13/Unit (2021 loss $21 mil.)
- P/E ratio reflects Unit price drop of $18 to $43/Unit (2021 $15/Unit) after adjustment for contingent consideration

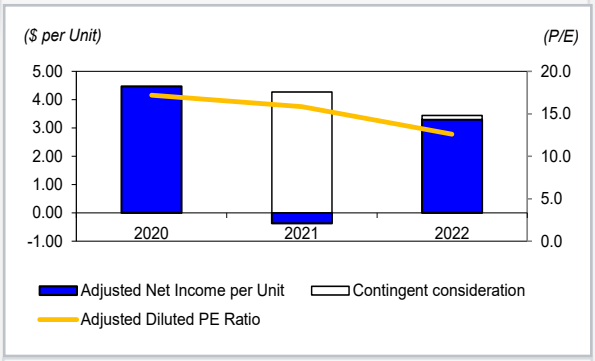
## CASH MANAGEMENT

- Operating activities down $14 mil. as working capital investment increased $11 mil. and $7 mil. higher profit from operations, net of contingent consideration, was offset by lower associated taxes of $4 mil.
- Paid $50 mil. for Clarion acquisition with borrowings and repaid $8 mil. debt leaving $65 mil. outstanding
- Paid special distribution of $8 mil. in March 2022
- Cash on hand of $5 mil. designated for $4 mil. annual bonuses and taxes

## FOURTH QUARTER RESULTS

- Revenue decreased 7.1%; 7.2% from organic contraction in cosmetics offset by 0.1% from FX currency down 6¢ at U.S./Cdn. 74¢
- Adjusted EBITDA reflects lower revenues, less favorable product mix and lower fixed cost benefits
- Net Income increased $27 mil., or $2.36/Unit, due to no contingent consideration (2021 $28 mil.)




| *($ millions)* | 2020 | 2021 | 2022 |
|---|---|---|---|
| Operating activities | 74.3 | **56.9** | **43.2** |
| Capital expenditures | (2.7) | **(2.4)** | **(1.5)** |
| Acquisitions | (51.9) | **(9.1)** | **(49.5)** |
| Proceeds (repay) debt | 6.0 | **(1.0)** | **42.0** |
| Financial expenses | (3.7) | **(3.7)** | **(5.6)** |
| Lease payments | (8.3) | **(8.1)** | **(8.7)** |
| Unit purchases | — | **(16.8)** | — |
| Distributions | (15.4) | **(15.4)** | **(23.0)** |
| Net cash flow | (1.7) | **0.4** | **(3.1)** |

| *($ millions)* | 2020 | 2021 | 2022 |
|---|---|---|---|
| Revenue | 124.7 | **116.4** | **108.1** |
| Adjusted EBITDA[1] | 26.0 | **18.1** | **14.5** |
| | *20.8%* | *15.6%* | *13.4%* |
| Net Income | 22.7 | **(17.6)** | **9.0** |
| Diluted per Unit | *$1.67* | *($1.60)* | *$0.77* |
| Payout Ratio[3] | *19%* | ***35%*** | ***40%*** |
| Free cash flow[2] | 16.5 | **7.2** | **5.7** |

# REPORT TO UNITHOLDERS

*For The Year Ended December 31, 2022*

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

First half 2022 results were on track with revenue up $7 million or 3% of sales while the second half results were down $11 million or 5% of sales. The decline was mainly due to a further drop in cosmetics as the impact of over supply in pumps and sprayers exceeded non-repeating coronavirus revenue and a slow down in Healthcare and Food & Beverage due to a slow down in the overall economy driven by higher interest rates, The oversupply situation is expected to reverse in the first half of 2023 with a recovery expected in the second half[4].

The 2022 year results reflect revenue contraction of 1% driven by organic contraction. Adjusted EBITDA[1] was down $7 million on lower revenues, at 14% of sales 2% lower than 2021. Net income was up $43 million, or $3.66 per Unit, mainly due to $46 million lower contingent consideration relating to the Clarion acquisition.

Fourth quarter revenue performance contracted 7% on organic contraction with no impact from currency translation with the dollar at U.S./Cdn. 74¢. However, the fourth quarter revenue and Adjusted EBITDA was a carbon copy of the third quarter. Net income increased $27 million mainly due to the $28 million in contingent consideration not repeating.

Richards faces a challenging future as the oversupply in the pumps and sprayer market that will depress our sales continues. A bridging table and a trend table have been provided to help investors come to their own conclusion in this regard.

The focus for 2023 will be to continue to grow core revenues by 2% to 5% assuming the economy does not slip into recession. We enter 2023 with enough working capital to fund the growth we've experienced and are poised to reset in the likely event that growth will revert to slower, historical levels. Acquisitions will remain a large part of our strategic direction.

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"*
Director,
Richards Packaging Inc

*March 7, 2023*

# INDEPENDENT TRUSTEES' REPORT

*For The Year Ended December 31, 2022*

It is our pleasure as independent trustees to provide this brief report on governance of the Fund.

The interests of Unitholders are represented by four trustees, three independent trustees and the former chief executive officer of Richards Packaging Inc. Trustees also serve as directors of certain wholly owned subsidiaries of Richards Packaging. The mandate of the trustees is to ensure the integrity of reporting to Unitholders, while the directors monitor the strategic, business and financial plans of Richards Packaging, and the succession plan for senior management. Our approach to corporate governance is to meet or exceed the guidelines developed by the Ontario Securities Commission.

The trustees have established the audit committee which is responsible for overseeing the activities of the external auditors, PricewaterhouseCoopers LLP, the quality and thoroughness of financial reporting and the effectiveness of internal controls in providing financial information and safeguarding assets of Richards Packaging. The directors have established the compensation and corporate governance committee to assess senior management performance, review their compensation, set senior management compensation and oversee the succession planning process. All members of both committees are independent of management.

Continuing trustees, directors and officers of Richards Packaging are Unitholders and combined own 28% of the Fund. Accordingly, our motivation and interests are aligned with the public Unitholders. Overall, our goal as directors and officers is to add value to Richards Packaging by contributing our broad experience and expertise in directing a controlled growth-oriented enterprise.

Distribution policy is set by the Trustees after giving careful consideration to the projected cash flows of the Fund, the long-term sustainability of the distribution level and the balance of risks and future prospects of the investments of the Fund. This policy is not set based upon net income due to various non-cash accounting charges that depress net income such as amortization, gains and losses on financial instruments and deferred income taxes.

Factors considered when setting this level included the funding needed for potential acquisitions, interest and foreign exchange rates and the cash needs of operations.

The Fund paid monthly distributions of 11¢ per Unit which represents an annualized yield of 3.0% on the December 31st closing price of $43.40 per Unit. The payout ratio[3] based on regular distributions was 40% for the fourth quarter and 35% for the year with free cash flow[2] mainly deployed to repay debt and invest in working capital. A special dividend of 38¢ per Unit will accrue to unitholders of record on March 16th and be paid on March 24th bringing the total payout ratio to 50%. The distributions to Unitholders in 2022 were 76% eligible and 24% non-eligible dividends.

| *"Don Wright"*<br>Chair | *"Susan Allen"*<br>Chair – Audit Committee | *"Rami Younes"*<br>Chair – Compensation & Corporate Governance Committee |
|---|---|---|

*March 7, 2023*

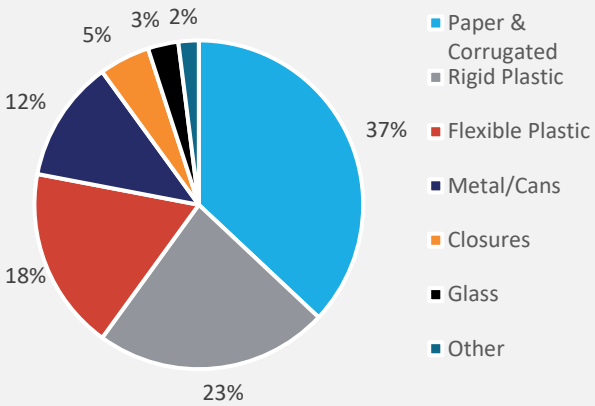
# MANAGEMENT DISCUSSION & ANALYSIS

*This management's discussion and analysis of Richards Packaging Income Fund ("MD&A") for the year should be read in conjunction with the attached audited financial statements for the year ended December 31, 2022, the annual statements for the year ended December 31, 2021, the quarterly reports for the periods ended March 31, June 30 and September 30, 2022 and the Annual Information Form dated March 7, 2023. Results are reported in Canadian dollars and have been prepared in accordance with International Financial Reporting Standards on a consistent basis with the 2021 annual financial statements.*

## NORTH AMERICAN PACKAGING INDUSTRY

Packaging is pervasive, as almost all products are delivered in some form of packaging. The properties of packaging fulfil not only the practical, transportability, protection functions and shelf life, but also serves to differentiate products and communicate branding messages such as quality, safety and consumer satisfaction. The latest ergonomically complex packaging components' design reflects significant investment in market research and product development. To meet the needs of this changing marketplace, the packaging industry has segmented into different product types outlined in the adjacent chart. Public market valuations tend to be higher in the Plastic and Flexible product types.

**Industry Segmentation By Product Type**




**North American Market Size = U.S. $194B**

As large product marketers have consolidated, packaging companies have embarked on a parallel industry consolidation strategy to meet their needs. Concentration is high in the glass, metal and paper segments with two to five companies controlling approximately 90% of their market and concentration is medium in the rigid plastic, flexible plastic and closure segments with 10 to 15 companies controlling 50% to 60% of their market. In 2022, there were over 252 acquisitions globally, down from the 281 acquisitions in 2021 at a median multiple of 8 times Adjusted EBITDA[1] (2021 11x). During 2022, the top 13 companies continued to spend on capital at the cautious rate of 8% of revenue (2021 7%). At the same time, excess capacity is continually being addressed with divestitures by conglomerates. Financing structures in place at most packaging companies are similar to that of an income trust, with significant use of debt priced anywhere from 3% to 6% and free cash flow[2] at 3%, which ensures that a disciplined approach to passing cost increases through to customers will remain in place. Clear evidence is that for the top 13 companies, their Adjusted EBITDA as defined within the packaging industry as a percent of sales has remained at a healthy 15% overall for 2022 (2021 16%).

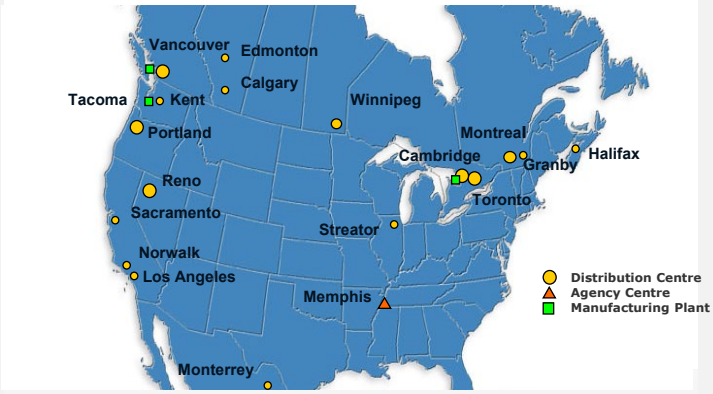
Within the North American Packaging industry, a $3 billion distributor-based market for rigid packaging exists to serve regional small- to medium-sized premium product marketers. Approximately 50 distributors provide marketing and package design expertise, source multiple packaging components from around the world, aggregate orders ensuring access to large manufacturers and provide inventory and logistics support to deliver a complete packaging solution.

Concentration in this segment is growing with the top five companies now controlling over 60% of their market. Richards Packaging Holdings Inc., Richards Packaging Holdings 2 Inc., Richards Packaging Holdings 3 Inc., and their subsidiaries ("Richards Packaging") is the largest packaging distributor in Canada and the third largest in North America. Other distributors consist mainly of local or regional family-owned companies who specialize to meet the unique needs of their customers.

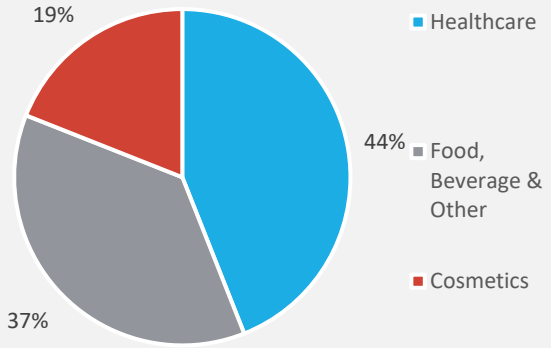
## DESCRIPTION OF THE BUSINESS

Richards Packaging Income Fund (the "Fund") is a limited purpose, open-ended trust created on February 26, 2004 to invest in distribution businesses throughout North America. The Fund commenced operations on April 7, 2004 when the Fund completed an initial public offering of 8.6 million trust units of the Fund ("Units") at a price of $10 per Unit and indirectly purchased 96% of the securities of Richards Packaging Inc. The remaining 4% represented the exchangeable shareholder ownership by management.

**RICHARDS PACKAGING LOCATIONS**




**REVENUE CATEGORIES**




Richards Packaging serves a wide customer base that is comprised of approximately 17,000 regional food, beverage, cosmetics, healthcare, and other enterprises. The primary source of revenue is from the distribution of over 8,000 different types of packaging containers and healthcare supplies and products sourced from over 900 suppliers and its three dedicated manufacturing facilities. Sales from these manufacturing facilities represent 6% of the total revenues (2021 6%). On December 31, 2022, Richards Canada sold the Rexplas manufacturing facility to a strategic supplier for $0.2 mil. who will continue to produce bottles for our needs.

The cornerstones of Richards Packaging's strategy include being:

- a leading supplier of cosmetic and nutraceutical packaging solutions,
- the largest distributor of surplus packaging,
- the largest distributor of medical, aesthetic, vision care supplies and surgical equipment,
- the leading supplier of sterile IV, chemo and oral drug packaging and dispensing systems, and
- one of the largest distributors of European and Asian glass for the specialty food and beverage markets.

**Revenue growth**

| *(% change)* | Qtr.1 | Qtr.2 | Qtr.3 | Qtr.4 | 2022 |
|---|---|---|---|---|---|
| Cosmetics..... | -22.1% | -16.9% | -33.4% | -34.1% | **-26.4%** |
| Heathcare..... | 8.9% | 17.2% | 10.5% | 2.8% | **9.6%** |
| Food, beverage & other..... | 9.3% | 5.2% | 2.1% | -8.6% | **2.0%** |
| Exchange translation..... | -1.1% | 0.7% | -5.0% | 0.2% | **-0.2%** |
| Weighted average growth | 0.1% | 5.9% | -2.8% | -7.1% | **-1.0%** |

Cosmetics packaging decreased $24 mil., excluding the impact of translation, mainly due to an oversupply in the pumps and sprayer market and the unwinding of the corona virus impact.

Healthcare increased $17 mil. mainly due to hospital pharmacy supplies, vision and aesthetic lines. Capital sales slowed in the fourth quarter to reflect the higher interest rates.

Food, beverage & other packaging increased by $3 mil., excluding the impact of translation, in line with GDP growth. Purchasing by our largest customers slowed during the fourth quarter on recession fears.

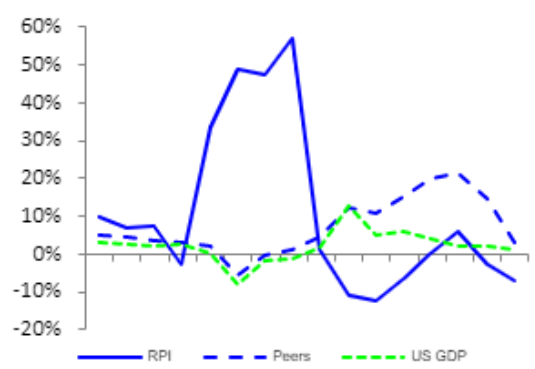
| Revenue trend<br>*($ thousands)* | Qtr. 1 | Qtr. 2 | Qtr. 3 | Qtr. 4 | Total |
|---|---|---|---|---|---|
| **2021** | 109,873 | 113,030 | 112,150 | 116,385 | 451,438 |
| Organic growth | 8,028 | 9,453 | 3,717 | -1,310 | 19,888 |
| | *7.3%* | *8.4%* | *3.3%* | *-1.1%* | *4.4%* |
| Coronavirus | -6,668 | -3,581 | — | — | -10,249 |
| Oversupply of pumps & sprayers | — | — | -6,232 | -7,109 | -13,341 |
| Foreign exchange | -1,252 | 833 | -596 | 175 | -840 |
| **2022** | **109,981** | **119,735** | **109,039** | **108,141** | **446,896** |

## CHANGES IN FINANCIAL MARKETS

Global economic markets, the impact of coronavirus restrictions imposed by governments and the impending end to the current economic cycle reflect pressure on GDP, currency wars and divergent United States monetary policy from the rest of the first world. Policy shifted to government deficit spending and protectionism also impacted currency valuations and GDP growth.

### Gross Domestic Product

In Canada, 2022 GDP grew quarterly at rates of 3.2%, 4.7%, 3.8% and 2.1%. The United States GDP grew 3.7%, 1.8%, 1.9% and 1.0% in each of the four quarters. We outperformed GDP and our peers in 2020 on the back of coronavirus revenues and the Clarion acquisition but have lagged behind in 2021 and 2022 mainly due to the oversupply in the pumps and sprayer markets.



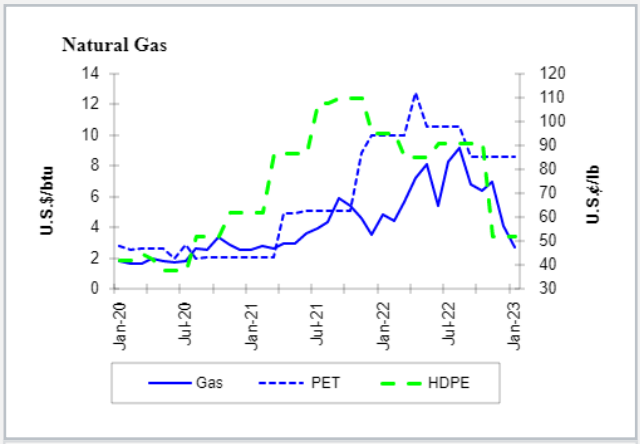

### Interest Rates and Foreign Exchange

The US Federal Reserve and The Bank of Canada both have introduced interest rate increases, following significant accommodation, given recent inflationary pressures. Exchange rates averaged U.S./Cdn. $0.77 however a decrease in US denominated volumes has lead to a negative impact on both revenue and Adjusted EBITDA[1] in the year. Oil prices, after peaking at over $110 mid-year in 2022 fell back to opening year levels and exchange rates were between U.S./Cdn. $0.74-$0.79 for the year.

| *($ millions)* | 2019 | 2020 | 2021 | 2022 |
|---|---|---|---|---|
| **INTEREST RATES** | ***2.1%*** | ***1.5%*** | ***1.2%*** | ***3.4%*** |
| Impact on Interest | — | (0.2) | (0.1) | 1.5 |
| **F/X - U.S./Cdn.$** | ***0.75*** | ***0.74*** | ***0.80*** | ***0.77*** |
| Impact on: | | | | |
| Revenue | **8.0** | **23.5** | **(31.5)** | **(0.8)** |
| Adjusted EBITDA | **1.5** | **9.9** | **(11.3)** | **(1.5)** |

**Energy Prices**

Energy prices are a major factor for the industry affecting glass furnace economics, resin costs and freight costs. In 2022, HDPE and PET resin prices came off their 2021 highs on demand shortages with some relief towards the end of the year as natural gas, their main feedstock also rose, then retreated on demand pressures.




## FINANCIAL HIGHLIGHTS

The MD&A covers the three months ended March 31, June 30, September 30 and December 31, 2022 and 2021 (generally referred to in this MD&A as the "first, second, third or fourth quarter") and the 12 months ended December 31, 2022 and 2021 (generally referred to in this MD&A as the "year").

**2022 results**

- Revenue was down 1.0% due mainly to the 2.3% unwinding of the coronavirus impact, and the 3.0% lower sales of pumps and sprayers due to an oversupplied market being offset by growth in healthcare (3.7%) and food & beverage (0.6%),
- Adjusted EBITDA[1] decreased $6.8 mil., at 14.4% of revenue, on less fixed costs and product mix benefits associated with lower revenue levels and a reversal of $1.5 mil. currency translation gain,
- Current income taxes decreased $3.9 mil. mainly reflecting lower taxable earnings partially offset by tax recovery on unit redemptions in excess of paid up capital,
- Net income increased $43.1 mil., or $3.66 per Unit, due to $46.1 mil. lower contingent consideration for the Clarion acquisition and a mark-to-market gain on exchangeable shares ($1.5 mil.) due to a $18.36 reduction in the unit price (2021 $15.09 increase), partially offset by lower Adjusted EBITDA net of taxes ($2.9 mil.) and higher financial expenses ($1,5 mil.).,
- Assets decreased by $7.0 mil. mainly due to lower leases of $5.3 mil. Long-term financial liabilities increased by $37.2 mil. mainly reflecting the debt associated with the final payments for the Clarion acquisition,
- Working capital[5] was up by $15.4 mil. mainly on lower accounts payable as inventory to combat logistic disruptions was partially unwound during the fourth quarter,
- Cash balance of $5.4 mil. was accumulated to cover $4.5 mil. annual bonuses and working capital needs,
- Free cash flow[2] of $27.5 mil. was mainly used to pay a $7.9 mil. special distribution, repay $7.5 mil. in debt and invest in working capital, raising the leverage ratio by 0.6 to 0.9x,
- Distributable cash flow[2] down 28¢ to $3.73 per Unit yielding a payout ratio[3] of 35%, and
- Monthly regular distributions of 11¢ yield a 3.0% return (@$43.40/Unit Dec 31st). A special distribution of 38¢ per Unit will be paid in March 2023 yielding a 3.9% return.

**2021 results:**

- Revenue down 7.7%, due to 11.5% unwinding of the coronavirus impact and 6.4% translation loss with the U.S./Cdn. strengthening by 6¢ to 80¢, partially offset by 9% growth from Clarion,
- Net income decreased $48.1 mil., or $4.84 per Unit, mainly due to $47.7 mil. contingent consideration for the Clarion acquisition,
- Assets increased by $4.1 mil. and long-term financial liabilities decreased by $8.8 mil. mainly due to higher inventory and lower lease obligations,
- Free cash flow[2] of $31.2 mil. was used to purchase Units ($16.8 mil.) and release $9.1 mil. of the Clarion holdback,
- Distributable cash flow[2] decreases by $1.83 per Unit yielding a payout ratio[3] of 33%, and
- Monthly distributions of 11¢ and a special distribution of 69¢ per Unit yield a 3.3% return (@$61.76/Unit Dec. 31st).

| *($ thousands)* | Calendar Year | | |
|---|---|---|---|
| | **2022** | **2021** | **2020** |
| **Income Statement Data:** | | | |
| Revenue | **446,896** | 451,438 | 489,235 |
| Net income | **45,172** | 2,068 | 50,143 |
| *Diluted per Unit a)* | *$3.29* | *-$0.37* | *$4.47* |
| **Financial Position Data:** | | | |
| Assets | **349,891** | 356,898 | 352,885 |
| Long-term finacial liabilities | **94,381** | 57,193 | 65,995 |
| *Leverage b)* | *0.9* | *0.3* | *0.2* |
| **Cash Flow Statement Data:** | | | |
| Distributions | **22,951** | 15,380 | 15,435 |
| *Diluted per Unit* | *$1.32* | *$1.32* | *$1.32* |
| *Payout ratio 3* | *35%* | *33%* | *23%* |
| Unit purchases | — | 16,796 | — |
| Debt proceeds (repayments) | **42,000** | **1,000** | **(9,000)** |

*a) anti-dilutive result reverts back to basic income per Unit*
*b) Revolving and Term debt/Adjusted EBITDA 1*

## REVIEW OF OPERATIONS

Operations were 38% in the United States ("Richards US") and 62% in Canada ("Richards Canada"). Approximately 37% of sales are concentrated in Los Angeles, Sacramento, Memphis, Reno and Portland and 48% in Toronto, Montreal, Winnipeg and Vancouver.

Revenue decreased by $8.2 million, or 7.1%, for the fourth quarter (2021 $8.4 million), and by $4.5 million, or 1.0%, for the year (2021 $37.8 million), from the same periods in 2021, respectively. During the fourth quarter, revenue decreased on organic contraction of $8.2 million, or 7.2%, (2021 $4.1 million) mainly reflecting the oversupply in the pumps and sprayer market along with the translation impact of Richards US as the Canadian dollar weakened U.S./Can. 5.9¢ (2021 strengthened U.S./Can. 2.8¢). For the year, revenue decreased on organic contraction of $3.7 mil., or 0.8%, (2021 $6.3 million) along with the translation impact of Richards US $0.8 mil. as the rate depreciated 2.8¢ to U.S./Cdn. 77.1¢ (2021 $31.5 million).

Cost of sales (before amortization) decreased $4.1 million for the fourth quarter, or 4.4%, (2021 $1.8 million) and increased by $1.6 million for the year, or 0.4%, (2021 down $13.3 million) from the same periods in 2021, respectively. During the fourth quarter gross profit margins were down 2.3% (2021 3.9%) from the same period in 2021. For the year, gross profit margins were down 1.2% (2021 3.4%) due to product mix and fixed cost advantages lost on the lower revenues. The volatility in the price of resins continues to not have a material impact on margins as a result of management's practice of immediately passing through increases and decreases to customers.

| *($ thousands)* | Qtr. 1 | | Qtr. 2 | | Qtr. 3 | | Qtr. 4 | | Calendar Year | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | **2022** | **2021** | **2022** | **2021** | **2022** | **2021** | **2022** | **2021** | **2022** | **2021** | **2020** |
| **Revenue** | **109,981** | 109,873 | **119,735** | 113,030 | **109,039** | 112,150 | **108,141** | 116,385 | **446,896** | 451,438 | 489,235 |
| Cost of sales[a)] | **88,032** | 87,264 | **94,726** | 89,555 | **88,567** | 88,855 | **88,763** | 92,827 | **360,088** | 358,501 | 371,769 |
| Gross profit | **21,949** | 22,609 | **25,009** | 23,475 | **20,472** | 23,295 | **19,378** | 23,558 | **86,808** | 92,937 | 117,466 |
| | *20.0%* | *20.6%* | *20.9%* | *20.8%* | *18.8%* | *20.8%* | *17.9%* | *20.2%* | *19.4%* | *20.6%* | *24.0%* |
| Administrative expenses | **5,433** | 5,274 | **5,489** | 5,133 | **5,470** | 5,392 | **4,871** | 5,359 | **21,263** | 21,158 | 19,289 |
| Foreign currency loss (gain) | **59** | 223 | **528** | (11) | **510** | 263 | **11** | 66 | **1,108** | 541 | (81) |
| **Adjusted EBITDA[1]** | **16,457** | 17,112 | **18,992** | 18,353 | **14,492** | 17,640 | **14,496** | 18,133 | **64,437** | 71,238 | 98,258 |
| | *15.0%* | *15.6%* | *15.9%* | *16.2%* | *13.3%* | *15.7%* | *13.4%* | *15.6%* | *14.4%* | *15.8%* | *20.1%* |
| Lease payments | **(2,123)** | (2,013) | **(2,094)** | (1,901) | **(2,225)** | (2,087) | **(2,251)** | (2,100) | **(8,693)** | (8,101) | (8,336) |
| Amortization | **3,082** | 3,004 | **3,102** | 3,096 | **3,141** | 3,134 | **3,062** | 3,186 | **12,387** | 12,420 | 12,225 |
| Contingent consideration | **1,631** | — | **—** | 13,200 | **—** | 6,500 | **—** | 28,000 | **1,631** | 47,700 | — |
| Exceptional items | **—** | — | **—** | — | **—** | — | **385** | — | **385** | — | 1,118 |
| Financial expenses | **1,327** | 1,410 | **1,687** | 1,365 | **1,924** | 1,426 | **2,130** | 1,402 | **7,068** | 5,603 | 5,126 |
| Exchangeable shares | **(4,593)** | (3,222) | **422** | (3,695) | **(3,158)** | 800 | **(241)** | (259) | **(7,570)** | (6,376) | 15,085 |
| Share of income - Vision | **(2)** | (19) | **(30)** | (16) | **(23)** | (25) | **(71)** | (52) | **(126)** | (112) | (104) |
| Income tax expense | **3,970** | 3,855 | **4,445** | 4,641 | **3,178** | 3,965 | **2,590** | 5,575 | **14,183** | 18,036 | 23,001 |
| **Net Income** | **13,165** | 14,097 | **11,460** | 1,663 | **11,655** | 3,927 | **8,892** | (17,619) | **45,172** | 2,068 | 50,143 |

*a) includes lease payments*

Lease payments are required to adjust EBITDA[1] for bank covenant purposes and are higher against the same period in 2021 due to additions in Reno.

Administrative expenses (before amortization) decreased $0.5 million for the fourth quarter (2021 $0.7 million) and were flat for the year (2021 up $1.9 million), over the same periods in 2021, respectively mainly due to lower bonuses.

The foreign currency loss (gain) resulted from exchange rate changes applied to our U.S. denominated working capital position within our Canadian operations. The weakening of the Canadian dollar spot rate by 2.4¢ in the second quarter and 4.6¢ in the third quarter led to the losses.

Adjusted EBITDA[1] decreased $3.6 million for the fourth quarter (2021 $7.8 million) and $6.8 million for the year (2021 $27.0 million), over the same periods in 2021, respectively. The decrease during the fourth quarter reflected the lower volume and the U.S./Cdn. dollar translation on to lower earnings at Richards US while rates averaged U.S./Cdn. 74¢ (2021 U.S./Can. 79¢). For the year, the decrease was due to lower volumes and the 2.8¢ weaker Canadian dollar. As a percent of sales, Adjusted EBITDA was down 2.2% for the fourth quarter and 1.4% for the year (2021 4.3%).

Amortization of $3.1 million for the fourth quarter and $12.4 million for the year includes $0.6 million for the quarter and $2.7 million for the year for intangible assets, which represents a charge for customer relationships. The remaining amortization amounts for the fourth quarter consisted of plant and equipment depreciation of $0.5 million for the fourth quarter and $2.0 million for the year, which is approximately half our capital spending requirement and lease amortization of $2.0 million of the fourth quarter and $7.7 million for the year.

Exceptional items represent professional fees associated with a failed acquisition.

Financial expenses were up $0.7 million for the fourth quarter and $1.5 million for the year from the same periods in 2021 mainly due to higher interest rates.

For the year, taxes decreased $3.9 million as decreases of $8.0 million income subject to taxes were mainly offset by no unit redemptions in excess of paid up capital.

Net income for the fourth quarter was up $26.5 million and for the year $43.1 million, which represented $2.36 and $3.66 per Unit on a diluted basis, respectively. The 2022 time-weighted averages were 10,955,007 Units and 463,006 exchangeable shares outstanding.

| Adjusted EBITDA[1] trend<br>*($ thousands)* | Qtr. 1 | Qtr. 2 | Qtr. 3 | Qtr. 4 | Total |
|---|---|---|---|---|---|
| **2021** | 17,112 | 18,353 | 17,640 | 18,133 | 71,238 |
| *(% of revenue)* | *15.6%* | *16.2%* | *15.7%* | *15.6%* | *15.8%* |
| Organic growth | 2,007 | 2,363 | (628) | (327) | 3,415 |
| Product mix | (2,105) | (1,492) | (865) | (1,783) | (6,245) |
| Fixed cost | — | — | (1,143) | (1,304) | (2,447) |
| Foreign exchange | (557) | (232) | (512) | (223) | (1,524) |
| **2022** | **16,457** | **18,992** | **14,492** | **14,496** | **64,437** |
| *(% of revenue)* | *15.0%* | *15.9%* | *13.3%* | *13.4%* | *14.4%* |

## DISTRIBUTABLE CASH FLOW

The distributable cash flow[2] definition for banking purposes excludes changes in working capital and capital expenditures for expansion of the business, as they are necessary to drive organic growth and are expected to be financed by our $65.0 million revolving facility currently $53.0 million drawn (2021 $nil drawn) or free cash flow.

Distributable cash flow[2] for the fourth quarter was down $1.6 million in comparison to the same period in 2021 due to decreased Adjusted EBITDA[1] of $3.6 million and $1.1 million higher interest partially offset by lower current income tax of $2.9 million. For the year, distributable cash flow decreased $4.1 million with lower Adjusted EBITDA of $6.8 million and $2.0 million higher interest being partially offset by lower current income tax of $3.9 million and $0.8 million lower maintenance capital.

The monthly distribution of 11¢ per Unit represents an annual yield of 3.0% on a $43.40 price per Unit at December 31, 2022 and a payout ratio[3] of 35% (2021 33%). Unitholder distributions and the exchangeable shareholders' dividends will be 76% eligible and 24% non-eligible dividends for tax purposes.

| *($ thousands)* | Qtr. 1 | | Qtr. 2 | | Qtr. 3 | | Qtr. 4 | | Calendar Year | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2022 | 2021 | 2022 | 2021 | 2022 | 2021 | 2022 | 2021 | 2022 | 2021 | 2020 |
| **Cash provided by operating activities** | **6,303** | (1,202) | **11,130** | 15,945 | **3,857** | 15,780 | **21,862** | 26,347 | **43,152** | 56,870 | 74,343 |
| Leases | **(2,123)** | (1,885) | **(2,094)** | (1,901) | **(2,225)** | (2,087) | **(1,866)** | (1,962) | **(8,308)** | (7,835) | (8,856) |
| Exceptional items | **—** | — | **—** | — | **—** | — | **385** | — | **385** | — | 1,118 |
| Dividends - Vision | **—** | — | **—** | — | **—** | — | **(90)** | (90) | **(90)** | (90) | (75) |
| Working capital[5] | **8,812** | 17,465 | **4,724** | (1,634) | **10,263** | (509) | **(8,393)** | (10,679) | **15,406** | 4,643 | 6,538 |
| Income tax payments | **3,465** | 2,734 | **5,232** | 5,943 | **2,597** | 4,456 | **2,598** | 4,517 | **13,892** | 17,650 | 25,190 |
| **Adjusted EBITDA[1]** | **16,457** | 17,112 | **18,992** | 18,353 | **14,492** | 17,640 | **14,496** | 18,133 | **64,437** | 71,238 | 98,258 |
| Interest [a)] | **913** | 933 | **1,217** | 887 | **1,487** | 912 | **1,700** | 626 | **5,317** | 3,358 | 3,194 |
| Dividends - Vision | **—** | — | **—** | — | **—** | — | **(90)** | (90) | **(90)** | (90) | (75) |
| Current income tax | **4,176** | 4,099 | **4,624** | 4,893 | **3,412** | 4,188 | **2,867** | 5,805 | **15,079** | 18,985 | 24,157 |
| Maintenance capital | **310** | 774 | **275** | 309 | **308** | 541 | **624** | 738 | **1,517** | 2,362 | 2,661 |
| **Distributable cash flow[2]** | **11,058** | 11,306 | **12,876** | 12,264 | **9,285** | 11,999 | **9,395** | 11,054 | **42,614** | 46,623 | 68,321 |
| *Diluted per Unit* | *$0.97* | *$0.97* | *$1.13* | *$1.05* | *$0.79* | *$1.03* | *$0.82* | *$0.96* | *$3.73* | *$4.01* | *$5.84* |
| **Regular distributions** | **3,771** | 3,860 | **3,768** | 3,856 | **3,765** | 3,848 | **3,769** | 3,816 | **15,073** | 15,380 | 15,435 |
| *Diluted per Unit* | *33.1¢* | *33.1¢* | *33.0¢* | *33.0¢* | *33.0¢* | *33.0¢* | *33.0¢* | *33.2¢* | *$1.32* | *$1.32* | *$1.32* |
| *Payout ratio[3]* | *34%* | *34%* | *31%* | *31%* | *42%* | *32%* | *40%* | *35%* | *35%* | *33%* | *23%* |
| **Free cash flow[2]** | **7,287** | 7,446 | **9,108** | 8,408 | **5,520** | 8,151 | **5,626** | 7,238 | **27,541** | 31,243 | 52,886 |
| **Special distribution** | **7,878** | | | | | | | | **7,878** | | |
| *Diluted per Unit* | *69.0¢* | | | | | | | | *.69¢* | | |
| *Total Payout ratio[3]* | *105%* | | | | | | | | *54%* | | |
| **Units outstanding** *(average)* | | | | | | | | | | | |
| *Diluted basis 000's* | **11,418** | 11,693 | **11,418** | 11,676 | **11,418** | 11,658 | **11,418** | 11,490 | **11,418** | 11,629 | 11,693 |

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

## LIQUIDITY AND FINANCING

### Cash flows from operating activities

Cash flows from operating activities were down for the fourth quarter by $4.5 million and for the year by $13.7 million over the same period in 2021. During the fourth quarter, the increase in profit from operations of $24.3 million was fully offset by $8.5 million of debt repayment $0.8 million higher financial expense and the $13.8 million purchase of Units in 2021. The changes in working capital[5] were mainly due to a decrease in inventory of $10.3 million and prepaid expenses of $1.3 million and higher accounts payable of $2.4 million. For the year, the decrease in profit from operations, net of contingent consideration, of $6.6 million, the $10.8 million increase in working capital, the special distribution of $7.9 million and the higher financial expenses of $1.9 million were partially offset by the $16.8 million repurchase of Units not repeating in 2022, the lower tax payments of $3.8 million and the $2.6 million borrowing in excess of the payment for the contingent consideration on the Clarion Acquisition. The changes in working capital include increases in accounts receivable ($5.7 million) and decreases in inventory ($6.9 million) and prepaid expenses ($3.4 million) offset by lower accounts payable ($20.0 million).

**Free cash flow deployment**

Regular and special distributions paid during the year were $15.1 million and $7.9 million respectively. The rapid sales growth in 2020 and supply disruptions in 2021 necessitated the investment in working capital. The payment of the contingent consideration associated with the Clarion acquisition was financed by a $49.5 million draw on our revolving debt. Debt repayment from free cash flow in 2022 was $7.5 (2021 $1.0 million).

| *($ millions)* | 2020 | 2021 | 2022 |
|---|---|---|---|
| Free Cash Flow | 52.9 | 31.2 | 27.6 |
| Cash | 0.4 | -0.3 | -3.2 |
| Working capital[5] | 6.6 | 4.6 | 15.4 |
| Clarion acquisition | 51.9 | 9.1 | 49.5 |
| Unit Buyback/Special | — | 16.8 | 7.9 |
| Debt repayment (proceeds) | -6.0 | 1.0 | -42.0 |

**Normal Course Issuer Bid**

On March 14, 2021, the Fund initiated a normal course issuer bid to purchase up to 500,000 Units prior to March 13, 2022 of which 275,000 Units were purchased during the bid period at an average purchase price of $61.08 per unit.

**Current income taxes**

The current income tax expense for the year was $15.1 million (2021 $19.0 million) which includes a $1.5 million recovery for refundable dividend tax partially offset by $0.7 million of Unit redemption cost in excess of paid up capital and $0.8 million for withholding taxes.

**Capital expenditures**

The Clarion acquisition on May 31st, 2020 was for $49.9 mil. net of a $10.5 mil. holdback. During the 2022 year, $49.5 mil. contingent consideration was paid. During the 2021 year, $8.5 mil. of the holdback was paid (2021 – $8.5 million) and $0.6 million for lower income tax.

Capital expenditures for the year were $1.5 million (2021 $2.4 million), all on account of maintenance capital and were mainly comprised of leasehold improvements ($0.1 million), the refurbishment of moulds ($0.1 million) and manufacturing ($0.1 million), computer ($0.7 million) and warehouse equipment ($0.5 million).

**Financing activities and instruments**

Free cash flow for the year was mainly used to fund the special distribution, invest in working capital and pay down debt. Lower leverage continues to keep bank margining down and provide financing flexibility for our ongoing acquisition program. Remaining free cash flow was also used to fund working capital to combat supply disruptions.

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 is being deferred and amortized over the term of the facilities. The term facility of $12,000 [2021 $23,000] bears interest at the bankers' acceptance borrowing rate plus a margin of 0.95% to 1.7%. The revolving credit facility of $65,000 [2021 $65,000], was $53,000 drawn [2021 undrawn] and is available for working capital and future acquisitions, The facility bears interest at the same rate as the term facility and any unused portion bears a standby fee of 20% of the margin.

The credit facilities are subject to a number of covenants including the leverage ratio which was to maintain debt less than 2.75 times the trailing twelve months Adjusted EBITDA[1]. As at December 31, 2022, our leverage ratio was 0.9x (2021 0.3x). Combined with cash flow from operations, management believes that adequate financing will be available for the foreseeable future[4].

**Commitments and contractual obligations**

Exchangeable shares are redeemable and are retractable by the shareholders at any time and will be paid in Units on a one-for-one basis. The obligation to previous shareholders of $1.0 mil. is on demand. Lease obligations include $4.4 mil. of interest that will be recognized over the lease terms.

| *($ millions)* | Total | < 1 yr. | < 3 yrs. | < 5 yrs. | Beyond |
|---|---|---|---|---|---|
| Bank debt | 65.0 | | 65.0 | | |
| Exchangeable shares | 19.9 | 19.9 | | | |
| Previous shareholder | 1.1 | 1.1 | | | |
| Annual bonus plans | 4.5 | 4.5 | | | |
| Lease obligations [a)] | 40.8 | 8.2 | 13.5 | 11.5 | 7.6 |
| | 131.3 | 33.7 | 78.5 | 11.5 | 7.6 |

[a)] *Lease obligations represents the gross payments including renewal options*

## OUTLOOK SENSITIVITIES[4]

Management believes that financial performance is on track to meet ongoing requirements for working capital, capital expenditures and to sustain monthly distributions to Unitholders at current level through 2023.

First quarter revenue is expected to be flat as the drag from the oversupply in the pumps and sprayers market is offset by exchange translation impact at U.S./Cdn. $0.74 vs. $0.79 over the same period in 2022. The sensitivity for every 1¢ movement in exchange rates to revenue is $0.6 million and to Adjusted EBITDA[1] is $0.07 million.

At the current price of $38/Unit the mark-to-market gain on exchangeable units would be $3 million. The sensitivity for every $1 movement in unit price is $0.46 million.

Maintenance capital will continue to be funded by cash flow from operations and is expected to be $1.5 million in 2023. Expansion capital is expected to be in the order of $1 million cumulatively over the next few years to support the launch of new marketing programs by our customers. These expenditures will be funded by free cash flow[2].

Distributable cash flow from Richards Packaging US and the current tax profile of Richards Canada are expected to allow for eligible and non-eligible dividends to be paid to Unitholders in 2023. Distributable cash flow[2] sensitivity to foreign currency fluctuations is $0.05 million for every U.S./Cdn. 1¢ movement. For 2023, surplus distributable cash is expected to be deployed to pay down debt.

## RISKS AND UNCERTAINTIES

**Business risks**

Investment in Units involves risks inherent in the ordinary course of business including: changes in China tariff rates, the impact of pandemics including the coronavirus, logistics disruptions, sustainability of customer and supplier relationships, financial stability of customers, lack of written customer and supplier agreements, competition from other packaging companies, the extent and duration of an economic downturn, inventory obsolescence, trade risks, resin price and exchange rate fluctuations, interest rate volatility, income taxes and reliance on key personnel. For a detailed description of these and other risks and uncertainties facing investors in the Fund please refer to the 2022 Annual Information Form dated March 7, 2023.

## TRANSACTIONS WITH RELATED PARTIES

Three facilities were leased in 2022 from Tim McKernan, a resident of Nevada, USA and officer of Richards Packaging. One facility was leased from Thomas McPherson, a resident of Cambridge, Canada. Richards Packaging utilizes all of the production capability of Vision Plastics Inc., of which 50% is owned by the spouse of the late Tom Simmons a resident of British Columbia, Canada and 50% by Richards Canada. All related party transactions are at rates that would be charged by arms-length parties.

## OUTSTANDING SHARE DATA

At March 7, 2023, the Fund had 10,955,007 Units and Holdings had 463,006 exchangeable shares outstanding, respectively. See note 16 of the attached consolidated financial statements for further discussion on the terms of the Units and exchangeable shares.

## 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 December 31, 2022 and revenue and expenses for the year then ended. Critical accounting estimates used in preparation of the consolidated financial statements are outlined below.

### Expected Credit Losses

Expected credit losses are reviewed using an expected credit loss model. The simplified approach is used to assess expected lifetime credit losses on trade receivables and is supplemented with an account-by-account analysis with a focus on the creditworthiness, aging, historical collection experience and forward-looking information. Based on this review along with the collection of $2.4 million of over 90 days past due accounts subsequent to year end, management believes the expected credit losses as at December 31, 20222 is sufficient to cover risks inherent in outstanding receivables.

### Inventory Obsolescence

Management monitors future demand for its inventory on a product-by-product basis, inventory aging and prevailing demand in local markets to record an allowance for obsolescence. This analysis resulted in a $0.9 million recognition of expense through inventory write down for the year (2021 $5.8 million). Based upon this review, management believes the obsolescence provision is adequate to cover risks inherent in inventory on hand as at December 31, 2022.

### Intangible Assets

Intangible assets have been recognized in connection with various acquisitions valued at $15.0 million as of December 31, 2022 pertaining to the future customer relationships. The basis of valuation assumed that the margin percent would remain constant and the duration of these relationships would be impacted by a retention rate of approximately 90% per year. The customer relationship intangible and associated $4.2 million future income tax liability as at December 31, 2022 will be amortized to income over 10 to 15 years from the dates of acquisition. In addition, trademark intangible assets of $11.6 million and an associated $3.0 million future income tax liability have been recorded. Although previously recognized customer relationship intangible assets affect net income, they do not impact distributable cash flow[2].

### Goodwill

Goodwill represents the excess purchase price of acquired businesses over the estimated fair value of the net assets acquired. Goodwill is not amortized but is reviewed for impairment annually or more frequently if impairment indicators arise. The Unit price was $43.40 as at December 31, 2022 (2021$61.76), which supports the fair value of the Fund. To determine fair value, management relies upon a valuation method based on a discounted cash flow model that assumes revenue growth of 3% and inflation of 3% per annum respectively. Overall, the carrying value of goodwill continues to be supported by the fair value of the Fund.

## DISCLOSURE CONTROLS AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

The Fund maintains disclosure controls and procedures as well as internal controls over financial reporting. Richards Packaging's President and Chief Operating Officer, acting in the capacity as Chief Executive Officer, and Chief Financial Officer have evaluated the effectiveness of the disclosure controls and procedures as well as the design and operating effectiveness of internal controls over financial reporting as of December 31, 2022 and have concluded that such controls and procedures are adequate and effective. Management determined that there were no material weaknesses in the internal controls over financial reporting as of December 31, 2022 and there have been no changes in the internal controls over financial reporting during the year then ended 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, SEDAR at www.sedar.com or TSX at www.tmx.com.

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1. *Management defines Adjusted EBITDA as net income before amortization excluding leases, contingent consideration, exceptional items, financial expenses, unrealized losses and distributions on exchangeable shares, share of income - Vision and income tax expense. The reconciliation of Adjusted EBITDA to net income can be found on page 10. 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[1] less interest excluding leases, cash income tax expense and maintenance capital expenditures plus dividends from equity investments. The reconciliation to cash from operations can be found on page 12. Free cash flow is distributable cash flow less distributions. The objective of presenting these measures 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 the 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[2]. The objective of presenting this measure is to calculate the percentage of distributions compared to the amount available for distribution under our credit agreement. Payout ratio does not have a standardized meaning prescribed by IFRS. The method of calculating the payout ratio may not be comparable to similar measures presented by other companies.*

4. *The Report to Unitholders and this MD&A contains forward-looking information within the meaning of applicable securities laws. The forward-looking information reflects management's current beliefs and expectations regarding the future growth, results of operations, performance and business prospects and opportunities of the Fund and Richards Packaging. We use words such as "may", "expect", "believe", "estimate" and similar terminology to identify forward-looking information. It is based on assumptions, estimates and analysis made by us in light of our experience and our perception of trends, current conditions and expected developments, as well as other factors we believe to be reasonable and relevant in the circumstances. Forward-looking information involves significant known and unknown risks, uncertainties and other factors which may cause our actual results, performance or achievements to be materially different from those predicted, expressed or implied by the forward-looking information. The risks and uncertainties include, among other things, changes in China tariff rates, changes in customer and supplier relationships, competition in the industry, trade risks in respect of foreign suppliers, fluctuations in foreign exchange and interest rates, liability claims, changes to applicable tax laws, as well as other risks and uncertainties, as more fully described herein under "Risks and Uncertainties" and in other reports and filings made by us with securities regulatory authorities and available at www.sedar.com. While management believes that 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.*

5. *Management defines working capital to be current assets (less cash) less current liabilities (less income tax payable, due to previous shareholders and exchangeable shares). The objective of utilizing this definition is to improve the understanding of activities within the cash flow statement.*

## 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 7, 2023.

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"*
Chair – Audit Committee

*"Enzio Di Gennaro"*
Chief Financial Officer,
Richards Packaging Inc.

*Toronto, Ontario*
*March 7, 2023*

# 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 Fund) as at December 31, 2022 and 2021, 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 Fund's consolidated financial statements comprise:

- the consolidated statements of net income and comprehensive income for the years ended December 31, 2022 and 2021;
- the consolidated statements of financial position as at December 31, 2022 and 2021;
- 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 Fund 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, 2022. 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.

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| Key audit matter | How our audit addressed the key audit matter |
| --- | --- |
| **Valuation of Inventory**<br><br>*Refer to note 2 – Summary of significant accounting policies, note 9 – Inventory, note 5 – Expenses by nature and note 19 – Financial instruments to the consolidated financial statements.*<br><br>As at December 31, 2022, the Fund held inventory of $97.8 million, net of inventory provisions for slow moving inventory of $10.2 million. The Fund's inventory is valued at the lower of cost and net realizable value.<br><br>Management applies significant judgment and makes assumptions in estimating its slow moving inventory provisions and in determining the net realizable value of inventory based on the consideration of a variety of factors, including aging, recent sales and market demand.<br><br>We considered this a key audit matter due to the magnitude of the inventory balance, the audit effort involved in testing the inventory balance and the significant judgment by management in determining the slow moving inventory provisions. | Our approach to addressing the matter included the following procedures, among others:<br><br>• Tested how management estimated the slow moving inventory provisions in determining the net realizable value of inventory, which included the following:<br>– Tested the data used by management in determining the inventory provisions and recalculated the mathematical accuracy of the inventory provisions.<br>– Evaluated the appropriateness of the Fund's inventory provisioning method.<br>– Evaluated the reasonableness of assumptions based on the factors used by management, including aging, recent sales and market demand by:<br>○ Considering the appropriateness of the aging of inventory balances by testing a sample of inventory items to purchase invoices.<br>○ Assessing recent sales and market demand by reviewing a sample of sales invoices for transactions that occurred during the year and subsequent to year-end.<br>○ Discussing with management, including inventory personnel, to understand and corroborate the assumptions made by management in determining the inventory provisions.<br>– Tested that inventory at year-end was recorded at the lower of cost and net realizable value by comparing a sample of inventory items to their most recent sales price as applicable. |

## 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 Fund'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 Fund or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Fund'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 Fund'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 Fund'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 Fund 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 Fund 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 Sarah Dobenko.

**/s/PricewaterhouseCoopers LLP**

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Ontario
March 7, 2023

## STATEMENT OF NET INCOME AND COMPREHENSIVE INCOME

*For the years ended December 31* *[Consolidated]*

| *Cdn$ thousands, unless otherwise noted* | Notes | 2022 | 2021 |
|---|---|---|---|
| **Revenue** | *4* | **446,896** | 451,438 |
| Cost of sales | *5* | **364,801** | 363,048 |
| Gross profit | | **82,095** | 88,390 |
| Administrative expenses | *5* | **21,737** | 21,471 |
| Contingent consideration revaluation | *3* | **1,631** | 47,700 |
| **Profit from operations** | | **58,727** | 19,219 |
| Financial expenses | *15* | **7,068** | 5,603 |
| Exchangeable shares | *16* | | |
| Mark-to-market gain | | **(8,501)** | (6,987) |
| Distributions | | **931** | 611 |
| Share of income - Vision | *18* | **(126)** | (112) |
| Income tax expense (income) | *6* | | |
| Current taxes | | **15,132** | 18,985 |
| Deferred taxes | | **(949)** | (949) |
| | | **14,183** | 18,036 |
| **Net income** | | **45,172** | 2,068 |
| Basic income per Unit | *16* | ***$4.12*** | *$0.19* |
| Diluted income per Unit | *16* | ***$3.29*** | *($0.37)* |
| **Other comprehensive income (loss)** *(subsequently recyclable to Net income)* | | | |
| Currency translation adjustment - Richards US | | **7,515** | (271) |
| **Comprehensive income** | | **52,687** | 1,797 |

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

# STATEMENT OF FINANCIAL POSITION

*As at December 31* *[Consolidated]*

| *Cdn$ thousands* | Notes | 2022 | 2021 |
|---|---|---|---|
| **ASSETS** | | | |
| **Current Assets** | | | |
| Cash | *7* | **5,445** | 8,420 |
| Accounts receivable | *8* | **57,334** | 50,259 |
| Inventory | *9* | **97,770** | 100,724 |
| Prepaid expenses and deposits | *10* | **9,977** | 12,784 |
| | | **170,526** | 172,187 |
| **Long-term Assets** | | | |
| Leases | *12* | **32,733** | 38,056 |
| Plant and equipment | *13* | **4,970** | 5,993 |
| Investment - Vision | *18* | **725** | 688 |
| Intangible assets | *14* | **27,754** | 29,489 |
| Goodwill | *14* | **113,183** | 110,485 |
| | | **179,365** | 184,711 |
| | | **349,891** | 356,898 |
| **LIABILITIES & EQUITY** | | | |
| **Current Liabilities** | | | |
| Accounts payable and accruals | *11* | **63,464** | 82,312 |
| Income tax payable | | **2,138** | 897 |
| Distributions payable | *16* | **1,256** | 1,256 |
| Due to previous shareholders | *3* | **1,068** | 48,934 |
| Exchangeable shares | *16* | **19,921** | 28,422 |
| | | **87,847** | 161,821 |
| **Long-term Liabilities** | | | |
| Revolving and term debt | *15* | **64,817** | 22,688 |
| Lease obligations | *11,12* | **29,564** | 34,505 |
| Deferred income taxes | *6* | **6,163** | 7,051 |
| | | **100,544** | 64,244 |
| **Equity** | | | |
| Unitholders' capital | *16* | **—** | — |
| Retained earnings | | **143,035** | 119,883 |
| Accumulated other comprehensive income | | **18,465** | 10,950 |
| | | **161,500** | 130,833 |
| | | **349,891** | 356,898 |
| Contingencies | *20* | | |

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

## STATEMENT OF CHANGES IN EQUITY

*For the years ended December 31* *[Consolidated]*

| *Cdn$ thousands* | Notes | Unitholders' capital | Retained earnings | AOCI[a)] | Equity |
|---|---|---|---|---|---|
| **December 31, 2020** | | 5,276 | 144,074 | 11,221 | 160,571 |
| Comprehensive income (loss) | | | 2,068 | (271) | 1,797 |
| Units purchased for cancellation[c)] | *16* | (5,276) | (11,520) | | (16,796) |
| Distributions[b)] | *16* | | (14,739) | | (14,739) |
| **December 31, 2021** | | **—** | **119,883** | **10,950** | **130,833** |
| Comprehensive income | | | **45,172** | **7,515** | **52,687** |
| Distributions[b)] | *16* | | **(22,020)** | | **(22,020)** |
| **December 31, 2022** | | **—** | **143,035** | **18,465** | **161,500** |

*a) AOCI - Accumulated other comprehensive income reflects the cumulative translation adjustment of Richards US.*
*b) Retained earnings amounts represent taxable distributions paid to Unitholders net of return of capital.*
*c) The amount paid for units purchased for cancellation in excess of the capital account was treated as a reduction in retained earnings.*

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

## STATEMENT OF CASH FLOWS

*For the years ended December 31* *[Consolidated]*

| *Cdn$ thousands* | Notes | 2022 | 2021 |
|---|---|---|---|
| **OPERATING ACTIVITIES** | | | |
| Profit from operations | | **58,727** | 19,219 |
| Add items not involving cash | | | |
| Plant, equipment & lease depreciation | *12,13* | **9,701** | 9,708 |
| Gain on leases | *12* | **(385)** | (266) |
| Intangible assets amortization | *14* | **2,686** | 2,712 |
| Contingent consideration revaluation | *3* | **1,631** | 47,700 |
| Income tax payments | | **(13,891)** | (17,650) |
| Dividends - Vision | *18* | **90** | 90 |
| Changes in working capital | *21* | **(15,407)** | (4,643) |
| **Cash provided by operating activities** | | **43,152** | 56,870 |
| **INVESTING ACTIVITIES** | | | |
| Due to previous shareholders | *3* | **(49,533)** | (9,127) |
| Additions to plant and equipment | *13* | **(856)** | (1,807) |
| Additions to computer software | *14* | **(662)** | (555) |
| **Cash used in investing activities** | | **(51,051)** | (11,489) |
| **FINANCING ACTIVITIES** | | | |
| Proceeds from debt for acquisition | *3,16* | **53,000** | — |
| Repayment of revolving & term debt | *15* | **(11,000)** | (1,000) |
| Lease payments | *12,15* | **(8,693)** | (8,101) |
| Financial expenses paid (excluding leases) | *15* | **(5,602)** | (3,670) |
| Purchase of Units for cancellation | *16* | — | (16,796) |
| Distributions paid to Exchangeable Shareholders | *16* | **(931)** | (611) |
| Distributions paid to Unitholders | *16* | **(22,020)** | (14,769) |
| **Cash provided by (used in) financing activities** | | **4,754** | (44,947) |
| **NET CASH FLOW** | | **(3,145)** | 434 |
| Cash, beginning of year | *7* | **8,420** | 7,720 |
| Foreign exchange effect | | **170** | 266 |
| **Cash, end of year** | *7* | **5,445** | 8,420 |

*The accompanying notes are an integral part of these 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. and Richards Packaging Holdings 3 Inc. ["Richards Canada"], 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 income (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 associated with the Clarion acquisition, our view of one reporting segment 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 capital 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 except at McKernan where weighted average is used. 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. Short term leases continue to be treated as operating in nature.

**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. When performing the goodwill impairment assessment, management assesses this on an overall level as a result of there being only one operating segment identified. 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 year.

## 3. ACQUISITION & DUE TO PREVIOUS SHAREHOLDERS

Included in due to previous shareholders is a U.S.$788 non-interest bearing demand loan. Contingent consideration associated with the Clarion acquisition of $49,533 was paid on March 31, 2022. During the 2021 year, $9,127 in holdbacks were paid.

## 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 determined based on the country of sales origination. No customer represents more than 5% of total revenue.

| | Canada | | United States | |
|---|---|---|---|---|
| | 2022 | 2021 | 2022 | 2021 |
| **By geography** | | | | |
| Revenue | **276,634** | 254,972 | **170,262** | 196,466 |
| Long-term assets | **105,130** | 109,315 | **74,235** | 75,396 |

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

| | 2022 | 2021 |
|---|---|---|
| **Revenue by end market** | | |
| Cosmetics | **84,186** | 111,533 |
| Healthcare[a)] | **198,550** | 181,069 |
| Food, beverage and other | **164,160** | 158,836 |
| | **446,896** | 451,438 |

*a) Healthcare includes $11,232 [2021 $10,861] of revenue recognized over time from the sale of maintenance & warranty service plans and $38,828 [2021 $36,664] sales of capital goods.*

## 5. EXPENSES BY NATURE

| | 2022 | 2021 |
|---|---|---|
| Salaries and wages | **34,914** | 34,604 |
| Benefits | **7,397** | 7,781 |
| Bonuses | **5,012** | 5,246 |
| Long-term incentive plan | **30** | 180 |
| **Employee compensation** | **47,353** | 47,811 |
| Inventory sold and services provided | **278,099** | 277,156 |
| Inventory provisions | **925** | 5,818 |
| Selling, distribution and other costs | **45,196** | 39,652 |
| Depreciation and amortization | **12,387** | 12,420 |
| Lease expenses | **1,470** | 1,121 |
| Foreign currency loss | **1,108** | 541 |
| **Cost of sales and administrative expenses** | **386,538** | 384,519 |

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 $831 [2021 – $984]. 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 $383 [2021 – $331] and can be redeemed only when the DSU plan participant ceases to serve.

## 6. INCOME TAXES

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

| | 2022 | 2021 |
|---|---|---|
| Profit from operations | **58,727** | 19,219 |
| Financial expenses | **(7,068)** | (5,603) |
| Contingent consideration revaluation | 1,631 | 47,700 |
| **Income subject to income taxes** | **53,290** | 61,316 |
| Statutory tax rate | *26.4%* | *26.5%* |
| Income tax expense at statutory tax rate | **14,051** | 16,224 |
| **Deferred income taxes** | **949** | 949 |
| Current period adjustments | | |
| Refundable dividend tax | **(1,529)** | (493) |
| Unit redemption in excess of paid up capital | **737** | 1,764 |
| Foreign rate differential | **86** | (1) |
| Withholding tax | **802** | 1,020 |
| Recoveries from prior years | **—** | (613) |
| Other items | **36** | 135 |
| **Current income taxes** | **15,132** | 18,985 |

Unremitted earnings in Richards US as of December 31, 2022 of US$57,842 is permanently reinvested and therefore the associated withholding tax is not recognized.

The significant components of deferred taxes are outline below:

| | 2022 | expense/ (income) | f/x [b)] | 2021 | expense/ (income) | additions/ f/x [b)] | 2020 |
|---|---|---|---|---|---|---|---|
| **Deferred tax liabilities** | | | | | | | |
| Customer relationships[a)] | **4,200** | **(708)** | **10** | 4,897 | (736) | (1) | 5,634 |
| Patents and trademarks[a)] | **2,988** | **—** | **74** | 2,914 | — | (5) | 2,919 |
| Plant and equipment | **1,150** | **(136)** | **67** | 1,219 | 49 | (5) | 1,175 |
| Other | **1** | **(3)** | **—** | 5 | (3) | — | 8 |
| **Deferred tax assets** | | | | | | | |
| Loss carryforward for tax | **—** | **—** | **—** | — | 118 | — | (118) |
| Leases | **(1,025)** | **(70)** | **(44)** | (911) | (217) | 2 | (696) |
| Working capital | **(1,151)** | **(32)** | **(46)** | (1,073) | (159) | 2 | (916) |
| | **6,163** | **(949)** | **61** | 7,051 | (949) | (7) | 8,006 |

*a) Reversal of intangible assets will not give rise to income taxes.*

*b) f/x = foreign exchange differences*

## 7. CASH

| | 2022 | 2021 |
|---|---|---|
| Cash at bank[a)] | 7,749 | 11,449 |
| Issued and outstanding cheques | (2,304) | (3,029) |
| | 5,445 | 8,420 |

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

## 8. ACCOUNTS RECEIVABLE

| | 2022 $ | Expected Loss % | 2021 $ | Expected Loss % |
|---|---|---|---|---|
| Current | 35,861 | *0.1%* | 39,848 | *0.1%* |
| 31 – 60 days past due | 14,476 | *0.2%* | 9,902 | *6.8%* |
| 61 – 90 days past due | 1,268 | *1.2%* | 590 | *17.8%* |
| Over 90 days past due | 6,399 | *35.6%* | 1,275 | *86.7%* |
| **Trade receivables** | 58,004 | *4.1%* | 51,615 | *3.7%* |
| Expected credit losses[a)] | (2,367) | | (1,925) | |
| Supplier rebates | 1,697 | | 569 | |
| | 57,334 | | 50,259 | |

*a) Management reassessed expected losses and recognized new provisions of $578 [2021 – $883] and wrote off $135 [2021 – $573]. The remaining non-cash change in the accounts receivable reflects foreign exchange differences.*

## 9. INVENTORY

| | 2022 | 2021 |
|---|---|---|
| Goods purchased for resale | 103,138 | 99,999 |
| Goods in transit | 2,762 | 12,716 |
| Manufacturing raw materials | 729 | 833 |
| Manufactured finished goods | 1,361 | 1,723 |
| Reserve for slow moving inventory[a)] | (10,220) | (14,547) |
| | 97,770 | 100,724 |

*a) Management recorded a reserve for slow moving inventory of $925 [2021 – $5,818], and recognized write-offs of $1,397 [2021 – $1,788]. In addition, $4,071 was written down to market. The remaining non-cash change in inventory provision reflects foreign exchange differences.*

## 10. PREPAID EXPENSES AND DEPOSITS

| | 2022 | 2021 |
|---|---|---|
| Deposits for commitment to purchase goods | **3,999** | 6,417 |
| Deferred costs on maintenance contracts | **1,915** | 2,672 |
| Deposits for trade shows, moulds and computer software | **1,648** | 1,502 |
| Rent | **1,068** | 1,153 |
| Bank interest | **311** | 26 |
| Other deposits | **1,036** | 1,014 |
| | **9,977** | 12,784 |

## 11. ACCOUNTS PAYABLE AND ACCRUALS

| | 2022 | 2021 |
|---|---|---|
| Trade payables | **38,756** | 57,626 |
| Customer rebates | **1,437** | 791 |
| Staffing expenses[a)] | **8,361** | 8,619 |
| Professional fees | **917** | 741 |
| Sales tax | **1,432** | 1,317 |
| Deferred revenue on maintenance contracts | **3,662** | 4,844 |
| Lease obligations - current portion | **6,849** | 6,832 |
| Other payables | **2,050** | 1,542 |
| | **63,464** | 82,312 |

*a) Management bonuses of $4,451[2021 - $4,363] included in staffing expenses were fully paid subsequent to year end.*

Included in Trade payables is $245 [2021 – $247] associated with payables to Vision [note 18].

## 12. LEASES AND LEASE OBLIGATIONS

| | Property | Computer equipment | Warehouse & office | Leases | Lease Obligations |
|---|---|---|---|---|---|
| **December 31, 2020** | | | | | |
| Current portion | | | | | 6,625 |
| Leases and lease obligation | 46,258 | 7 | 288 | 46,553 | 42,436 |
| Additions/acquisitions | 747 | | 93 | 840 | 858 |
| Terminations | (1,850) | | | (1,850) | (2,366) |
| Amortization | (7,205) | (2) | (127) | (7,334) | |
| Payments, excluding interest | | | | | (6,297) |
| Foreign exchange differences | (151) | | (2) | (153) | 81 |
| **December 31, 2021** | | | | | |
| Carrying value | 58,896 | 11 | 519 | 59,426 | |
| Accumulated amortization | (21,097) | (6) | (267) | (21,370) | |
| Current portion | | | | | 6,832 |
| Leases and lease obligation | 37,799 | 5 | 252 | 38,056 | 34,505 |
| Additions | **1,660** | | | **1,660** | **1,352** |
| Terminations | **(699)** | | | **(699)** | **(776)** |
| Amortization | **(7,546)** | **(5)** | **(111)** | **(7,662)** | |
| Payments, excluding interest | | | | | **(7,071)** |
| Foreign exchange differences | **1,378** | | **-** | **1,378** | **1,571** |
| **December 31, 2022** | | | | | |
| Carrying value | **61,235** | **11** | **519** | **61,765** | |
| Accumulated amortization | **(28,643)** | **(11)** | **(378)** | **(29,032)** | |
| Current portion | | | | | **6,849** |
| Leases and lease obligation | **32,592** | **—** | **141** | **32,733** | **29,564** |

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

| | 2023 | 2024 | 2025 | 2026 | 2027 | beyond |
|---|---|---|---|---|---|---|
| Gross lease payments | 8,224 | 7,589 | 5,931 | 5,913 | 5,558 | 7,633 |

## 13. PLANT AND EQUIPMENT

| | Manufacturing Equipment | Manufacturing Moulds | Warehouse & office | Computer equipment | Leaseholds | Total |
|---|---|---|---|---|---|---|
| **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 |
| Additions | 150 | 449 | 608 | 264 | 336 | 1,807 |
| Fully depreciated assets | (1,206) | (2,218) | (1,263) | (345) | (1,274) | (6,306) |
| Depreciation | (229) | (745) | (584) | (313) | (503) | (2,374) |
| Foreign exchange differences | (35) | 12 | 2 | (13) | (24) | (58) |
| **December 31, 2021** | | | | | | |
| Carrying value | 2,115 | 3,555 | 2,340 | 985 | 1,636 | 10,631 |
| Accumulated Depreciation | (1,430) | (2,328) | (546) | (258) | (76) | (4,638) |
| Net book value | 685 | 1,227 | 1,794 | 727 | 1,560 | 5,993 |
| Additions | **248** | **137** | **481** | **57** | **61** | **984** |
| Disposals | **(128)** | | **(9)** | | | **(137)** |
| Depreciation | **(225)** | **(980)** | **(314)** | **(90)** | **(430)** | **(2,039)** |
| Foreign exchange differences | **(81)** | **89** | **(6)** | **25** | **5** | **32** |
| **December 31, 2022** | | | | | | |
| Carrying value | **2,154** | **3,781** | **2,806** | **1,067** | **1,702** | **11,510** |
| Accumulated Depreciation | **(1,527)** | **(3,308)** | **(851)** | **(348)** | **(506)** | **(6,540)** |
| Net book value | **627** | **473** | **1,955** | **719** | **1,196** | **4,970** |

## 14. INTANGIBLE ASSETS AND GOODWILL

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 10.6% [2021 – 12.2%]. For periods beyond the budget period, cash flows were extrapolated using long term average growth rates of 3.0% [2021 – 2.7%]. 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, 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 |
| Amortization | (2,687) | | (25) | (2,712) | |
| Additions | | | 555 | 555 | |
| Foreign exchange differences | (15) | (17) | | (32) | (169) |
| **December 31, 2021** | | | | | |
| Carrying value | 36,871 | 11,333 | 1,130 | 49,334 | 110,485 |
| Accumulated amortization | (19,330) | | (515) | (19,845) | |
| Net book value | 17,541 | 11,333 | 615 | 29,489 | 110,485 |
| Amortization | **(2,574)** | | **(112)** | **(2,686)** | |
| Additions | | | **662** | **662** | |
| Fully amortized intangibles | **(13,002)** | | | **(13,002)** | |
| Foreign exchange differences | **12** | **260** | **17** | **289** | **2,698** |
| **December 31, 2022** | | | | | |
| Carrying value | **24,700** | **11,593** | **1,809** | **38,102** | **113,183** |
| Accumulated amortization | **(9,721)** | | **(627)** | **(10,348)** | |
| Net book value | **14,979** | **11,593** | **1,182** | **27,754** | **113,183** |

## 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 $12,000 [2021 – $23,000] bears interest at the bankers' acceptance borrowing rate plus a premium of 0.95% to 1.7%. The effective interest rate at December 31, 2021 was 3.4 % [2021 – 1.4%]. Voluntary repayments of term debt of $11,000 [2021 – $1,000] were made during the year ended December 31, 2021. To pay the Clarion contingent consideration and for working capital, $53,000 of the revolving credit facility of $65,000 [2021 – $65,000] was drawn [2021 – 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.

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

| | 2022 | 2021 | 2020 | 2019 |
|---|---|---|---|---|
| Interest expense | **2,193** | 398 | 432 | 722 |
| Credit card fees | **2,844** | 2,883 | 2,340 | 1,295 |
| Credit facility charges | **280** | 389 | 446 | 206 |
| Amortization of deferred financing fees | **129** | 129 | 113 | 22 |
| Lease obligation interest | **1,622** | 1,804 | 1,795 | 1,512 |
| | **7,068** | 5,603 | 5,126 | 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, 2020** | 11,230,007 | 11,230,007 | 463,006 | 11,693,013 | 11,693,013 |
| Units purchased for cancellation | (275,000) | (64,233) | | (275,000) | (64,233) |
| **December 31, 2021** | 10,955,007 | 11,165,774 | 463,006 | 11,418,013 | 11,628,780 |
| **December 31, 2022** | **10,955,007** | **10,955,007** | **463,006** | **11,418,013** | **11,418,013** |

Exchangeable shares mark-to-market gain reflects a unit price decrease during the year ended December 31, 2022 of $18.36 [2021– $15.09] to $43.40 per Unit.

### 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.

**Contributed surplus**

The components of Unitholders' capital included unit capital and contributed surplus which was fully deployed to purchase units for cancellation.

**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. 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. 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 of 11¢ per Unit were paid in 2022 at $1,205 with a special distribution of 69¢ paid in March 2022.

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 2022 were $51 with a special distribution of $319 paid in March 2022.

## 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, 2022 was 0.93 [2021 – 0.25]. In addition, the fixed charge coverage ratio covenant was greater than 2.0 times at 4.1 [2021 – 5.0]. The minimum net worth covenant was $70,000 and the net worth was $181,544 [2021 – $159,255].

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.

## 18. RELATED PARTY TRANSACTIONS AND INVESTMENT - VISION

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

| | 2022 | 2021 |
|---|---|---|
| Leases of facilities from entities related to certain officers | **1,282** | 1,137 |
| Product purchases from Vision | **8,241** | 7,425 |

Richards Packaging commitments for leases of facilities from entities related to officers of $7.9 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:

| | 2022 | 2021 | | 2022 | 2021 |
|---|---|---|---|---|---|
| **Statement of financial position** | | | | | |
| **Assets** | | | **Liabilities** | | |
| Current assets | **1,962** | 1,587 | Current liabilities | **883** | 670 |
| Plant and equipment | **371** | 460 | | | |
| **Total assets** | **2,333** | 2,047 | **Net assets** | **1,450** | 1,377 |
| **Statement of net income** | | | | | |
| Revenue | | | | **8,241** | 7,425 |
| Expenses | | | | **7,988** | 7,202 |
| **Net income** | | | | **253** | 223 |

The increase of $36 [2021 – $19 increase] in Investment – Vision represents share of net income of $126 [2021 – $109] decreased by dividends received of $90 [2021 – $90].

## 19. FINANCIAL INSTRUMENTS

**Fair value**

Cash, accounts receivable, accounts payable and accruals, distributions payable and due to previous shareholders 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, 2022, 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, 2022 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, 2022 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 $426.

**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 loss of $1,108 has been recorded for the year ended December 31, 2022 [2021 – $541] relating to cross-border transactions. A 1.0% movement in foreign currency rates would have impacted net income by $160.

## 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 change working capital excludes cash, income taxes payable, due to previous shareholders and exchangeable shares but consists of the following:

| | 2022 | 2021 |
|---|---|---|
| Accounts receivable | **(5,686)** | (514) |
| Inventory | **6,934** | (12,808) |
| Prepaid expenses and deposits | **3,355** | (1,922) |
| Accounts payable and accruals | **(20,010)** | 10,601 |
| | **(15,407)** | (4,643) |

For the year ended December 31, 2022, the foreign exchange translation gain excluded from the above was $4,485 [2021 – $290 loss].

# UNITHOLDER INFORMATION

## Trustees

***Donald Wright***
**Chair**

***Susan Allen***
**Chair – audit committee**

***Rami Younes***
**Chair – compensation and corporate governance committee**

***Gerry Glynn***
**Trustee**

## Management team

***David Prupas***
**President and Chief operating officer**

***Enzio Di Gennaro***
**Chief financial officer**

## Corporate Information

**Registered Head office**

6095 Ordan Drive
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(905) 670-7760

**Auditors**

PricewaterhouseCoopers LLP
PWC Tower
18 York Street, Suite 2600
Toronto, Ontario M5J 0B2

### Transfer agent and registrar

TSX Trust Company
P.O. Box 700
Postal Station B
Montreal, Quebec H3B 3K3
www.tsxtrust.com

**Toronto Stock Exchange listing**

**Symbol: RPI.UN**

### Investor information

Investor information is available at www.richardspackaging.com, SEDAR at www.sedar.com and TSX at www.tmx.com

**Annual meeting**

Thursday May 4, 2023 at 9:00 a.m.
Brookfield Place
181 Bay Street, Suite 4400
Toronto, Ontario M5J 2T3