

Q3 QUARTERLY REPORT

Richards Packaging Income Fund

Quarter ended September 30, 2018

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Richards Packaging Income Fund

CEO'S REPORT TO UNITHOLDERS

September 30, 2018

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

Overall the Third quarter performance exceeded our expectations with revenue growth of 10.7% as 6.8% organic growth combined with a 3.9% positive translation on a U.S./Cdn. 3.3¢ weakening of the dollar to 76.5¢. Gross profit margins and Adjusted EBITDA¹ as a percent of sales were similar to the first half at 18.3% and 14.6% respectively. Adjusted EBITDA was up \$2.0 million, or 20%, due to higher sales. Net income was up \$0.3 million, or 13.5¢ per Unit, with higher Adjusted EBITDA and lower income tax expense offset by a higher mark-to-market loss on exchangeable shares.

Nine-month results reflects strong total revenue growth of 5.4% mainly due to organic revenue growth. Adjusted EBITDA¹ was up \$4.2 million, or 14%, at 14.6% of sales due to higher sales volumes. Net income increased by \$1.7 million, or 15.3¢ per Unit, when compared to the previous year as higher Adjusted EBITDA and lower taxes were offset by a higher mark-to-market loss on the exchangeable shares.

The \$3.7 million of free cash flow² generated in the third quarter was deployed to pay down the debt by \$1.0 million and invest in working capital. An additional \$3.6 million was invested in inventory ahead of the next increase in Chinese tariffs. Maintenance capital was \$0.6 million higher due to implementing a high productivity warehousing solution in our largest warehouse. The Fund's leverage dropped to 0.6 times, or by 0.1 times compared to June 30, 2018.

The Fund paid monthly distributions of 11¢ per Unit during the third quarter, which represented an annualized yield of 3.3% on the September 30th closing price of \$40.05 per Unit. The payout ratio³ for the third quarter was 51% reflecting higher Adjusted EBITDA and lower taxes.

We appreciate the support of our customers, suppliers, employees and investors and will continue to execute on our commitments with the highest degree of quality, care and integrity.

"Gerry Glynn"
Chief Executive Officer
Richards Packaging Inc.
6095 Ordan Drive
Mississauga, Ontario
L5T 2M7

Oct. 31, 2018

Richards Packaging Income Fund

MANAGEMENT'S DISCUSSION AND ANALYSIS

October 31, 2018

This management's discussion and analysis ("MD&A") of Richards Packaging Income Fund for the third quarter should be read in conjunction with the attached condensed interim financial statements dated September 30, 2018, the second quarter report dated July 31, 2018, the first quarter report dated May 4, 2018, the 2017 Annual Report and the 2017 Annual Information Form both dated March 1, 2018. Results are reported in Canadian dollars and have been prepared in accordance with International Financial Reporting Standards ("IFRS") on a consistent basis with the 2017 annual financial statements except as outlined in Note 2 in the attached condensed interim financial statements.

Description of the Business

Richards Packaging serves a wide customer base that is comprised of approximately 14,000 regional cosmetics, healthcare and food, beverage, and other companies. The primary source of revenue is from the distribution of over 5,000 different types of packaging containers and related components sourced from over 600 suppliers and its three dedicated manufacturing facilities. Sales from these manufacturing facilities represent approximately 10% of the total revenues of Richards Packaging (2017 – 10%).

Financial Highlights

Highlights of the overall performance for the third quarter include:

- Revenue up \$7.9 mil., or 10.7%, due to organic growth of 6.8% and the foreign exchange impact of 3.9% resulting from a 3.3¢ U.S./Cdn. increase to 76.5¢,
- Adjusted EBITDA¹ up \$2.0 mil., or 19.7%, representing 14.6% of sales,
- Current income taxes down \$1.3 mil. mainly due to intercompany financing in 2017,
- Net income increased \$0.3 mil. due primarily to higher Adjusted EBITDA and lower taxes offset by a higher mark-to-market gain on exchangeable shares (\$3.0 mil.),
- Non-cash working capital increased \$3.5 mil. due to higher inventory (\$3.5 mil.) and accounts receivable (\$3.2 mil.) offset by higher accounts payable (\$3.2 mil.),
- Free cash flow² of \$3.7 mil. was utilized to pay \$1.0 million of term debt and invest in working capital.
- Leverage ratio of 0.6 times, down from 0.7 times as at June 30, 2018,
- Revolving and term debt maturities were extended by 2 years to September 2021 on similar terms at a cost of \$0.1 mil.,
- Distributable cash flow² increased by \$2.8 mil., or 24¢ per Unit, mainly due to \$2 million of higher Adjusted EBITDA and \$1.3 million of taxes associated with the intercompany refinancing in 2017, which resulted in a 51% payout ratio³, and
- Monthly distributions of 11¢ per Unit represented a 3.3% annualized return on the Sept. 30th closing price of \$40.05 per Unit.

This MD&A covers the three and nine months ended September 30, 2018 generally referred to in this MD&A as the "third quarter" and the "nine months", respectively. The following table sets out selected consolidated financial information:

Richards Packaging Income Fund

MANAGEMENT'S DISCUSSION AND ANALYSIS

October 31, 2018

| (\$ thousands) | Qtr. 3 | | Nine months | |
|--|---------------|--------------|---------------|---------------|
| | 2018 | 2017 | 2018 | 2017 |
| Income statement data: | | | | |
| Revenue..... | 81,413 | 73,546 | 236,273 | 224,149 |
| Adjusted EBITDA ¹ | 11,876 | 9,920 | 34,402 | 30,210 |
| <i>Diluted per Unit</i> | <i>101.6¢</i> | <i>84.8¢</i> | <i>\$2.94</i> | <i>\$2.58</i> |
| Net income..... | 5,469 | 5,190 | 14,139 | 12,445 |
| <i>Diluted per Unit</i> | <i>50.2¢</i> | <i>36.7¢</i> | <i>\$1.30</i> | <i>\$1.15</i> |
| Financial position data: | | | | |
| Assets..... | 203,346 | 186,527 | | |
| Term debt..... | 28,944 | 35,927 | | |
| <i>Debt/Adjusted EBITDA</i> | <i>0.6</i> | <i>0.9</i> | | |
| Cash flow data: | | | | |
| Distributions..... | 3,893 | 3,886 | 11,672 | 11,094 |
| <i>Diluted per Unit</i> | <i>33.3¢</i> | <i>33.2¢</i> | <i>99.8¢</i> | <i>94.9¢</i> |
| <i>Payout ratio</i> ³ | <i>51%</i> | <i>81%</i> | <i>51%</i> | <i>62%</i> |
| Unit purchases..... | — | — | — | — |
| Debt repayment..... | 1,000 | 1,000 | 4,500 | 6,000 |

Review of Operations

Revenue increased by \$7.9 million or 10.7% for the third quarter and by \$12.1 million or 5.4% for the nine months from the same periods in 2017. These increases represent organic growth of \$5.0 million or 6.8% and \$11.5 million or 5.1% and the positive translation impact of Richards Packaging US of \$2.9 million, or 3.9% and \$0.6 million or 0.3%, respectively. The Canadian dollar weakened by 3.3¢ to U.S./Cdn.76.5¢ for the third quarter and strengthened by 1.1¢ to U.S./Cdn.77.6¢ for the nine months. The translation impact for the nine months was positive despite the stronger Canadian dollar due to significant revenue growth.

| (2018 % change over 2017) | Qtr. 3 | Nine months |
|-------------------------------|--------|-------------|
| Revenue disaggregation | | |
| Cosmetics..... | 12.1% | 7.2% |
| Healthcare..... | 10.0% | 8.7% |
| Food, beverage & other..... | 2.1% | 2.5% |
| Exchange translation..... | 3.9% | 0.3% |
| Weighted average growth..... | 10.7% | 5.4% |

The largest increase was in Cosmetics at \$2.4 million for the third quarter and \$4.6 million for the nine months from the same periods in 2017, excluding the impact of translation. Existing large customers grew by \$1.3 million or 6.6% and \$1.4 million or 2.2% and new customers were up \$0.6

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million or 3.0% and \$1.7 million or 2.6% for the third quarter and nine months, respectively. Management believes this was due to large customer purchasing activity ahead of announced China tariffs by the US⁴. The remaining increases of \$0.5 million or 2.5% for the third quarter and \$1.5 million or 2.4% for the nine months, respectively represents normal activity across the Cosmetics customer base.

Healthcare increased \$1.7 million for the third quarter and \$4.3 million for the nine months from the same periods in 2017 due to a supplier acquiring its competitor bringing incremental sales of \$0.9 million or 5.1% and \$1.9 million or 3.8%, respectively. The remaining increase of 4.9% for both the third quarter and the nine months represents normal activity across the Healthcare customer base.

Food, beverage and other increased by \$0.9 million for the third quarter and \$2.6 million for the nine months from the same periods in 2017 excluding the impact of translation and were in line with GDP growth.

| (\$ thousands) | Qtr. 3 | | Nine months | |
|---|---------------|--------------|----------------|--------------|
| | 2018 | 2017 | 2018 | 2017 |
| Revenue | 81,413 | 73,546 | 236,273 | 224,149 |
| Cost of products sold..... | 66,492 | 60,480 | 192,693 | 184,664 |
| Gross profit..... | 14,921 | 13,066 | 43,580 | 39,485 |
| | <i>18.3%</i> | <i>17.8%</i> | <i>18.4%</i> | <i>17.6%</i> |
| Administrative expenses..... | 3,074 | 3,054 | 9,120 | 9,045 |
| Foreign currency loss (gain)..... | (29) | 92 | 58 | 230 |
| Adjusted EBITDA ¹ | 11,876 | 9,920 | 34,402 | 30,210 |
| | <i>14.6%</i> | <i>13.5%</i> | <i>14.6%</i> | <i>13.5%</i> |
| Amortization..... | 823 | 943 | 2,400 | 2,834 |
| Financial expenses..... | 595 | 661 | 1,726 | 1,720 |
| Contingent consideration revaluation..... | — | — | — | 83 |
| Exchangeable shares loss (gain)..... | 2,129 | (894) | 7,989 | 3,919 |
| Share of income - Vision..... | (16) | 1 | (8) | (39) |
| Income tax expense..... | 2,876 | 4,019 | 8,156 | 9,248 |
| Net Income | 5,469 | 5,190 | 14,139 | 12,445 |

Cost of products sold (before amortization) for the third quarter and the nine months increased by \$6.0 million and by \$8.0 million from the same periods in 2017, respectively. Gross profit margins for the third quarter were similar to the first half at 18.3% and increased over 2017 by 0.5% partially due to a \$0.2 million lower provision for inventory obsolescence. Resin price volatility did not have a material impact on margins as a result of management's practice of passing through increases and decreases to customers.

Administrative expenses (before amortization) for the third quarter and for the nine months were similar to the same periods in 2017.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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The foreign currency gain from operations resulted from exchange rate changes applied to our U.S. dollar denominated working capital position within our Canadian operations.

Adjusted EBITDA¹ for the third quarter and the nine months increased by \$2.0 million, or 19.7%, and by \$4.2 million, or 13.9%, from the same periods in 2017, respectively. As a percent of sales, Adjusted EBITDA was at 14.6% for the third quarter and the nine months. Changes were a result of the factors referred to above.

Amortization of \$0.8 million for the third quarter and \$2.4 million for the nine months was comprised of \$0.4 million and \$1.3 million respectively for intangibles assets amortization, which represents a charge for customer relationships. Depreciation for capital assets was \$0.4 million and \$1.1 million for the third quarter and the nine months respectively.

Financial expenses were comparable for the third quarter and the nine months compared to the same periods in 2017 as credit card fees and higher interest rates were offset by lower term debt.

Exchangeable shares mark-to-market loss (gain) reflects a \$2.26 per Unit increase during the third quarter to \$40.05 and an increase of \$8.88 per Unit for the nine months. Exchangeable shares monthly distributions were 11¢ per Share in the nine months of 2018.

Income tax expense decreased \$1.1 million for the third quarter and for the nine months compared to the same periods in 2017, respectively. Current tax decreases of \$1.3 mil. for the third quarter were mainly due to intercompany financing in 2017, as \$0.4 mil. in US tax reform savings and \$0.1 mil. refundable dividend tax recovery was fully offset by taxes on higher Income before income taxes.

Net income for the third quarter was \$5.5 million and \$14.1 million for the nine months, which represented 50.2¢ and \$1.30 per Unit on a diluted basis, respectively.

Distributable Cash Flow²

The distributable cash flow definition excludes changes in non-cash working capital and capital expenditures for the expansion of the business, as they are necessary to drive organic growth and are expected to be financed by a \$5.0 million revolving debt facility (currently undrawn) or free cash flow².

Distributable cash flow for the third quarter was \$2.8 million higher and \$4.9 higher for the nine months compared to the same periods in 2017. Overall the increase was mainly due to by higher Adjusted EBITDA¹ and lower current income taxes as discussed above offset by higher maintenance capital.

Free cash flow² of \$3.7 million for the third quarter was deployed to repay \$1.0 million of term debt and fund working capital.

Monthly distributions paid of 11¢ per Unit represent a payout ratio³ of 51% for the third quarter and represent an annual yield of 3.3% on a \$40.05 price per Unit at September 30, 2018. The Unit

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MANAGEMENT'S DISCUSSION AND ANALYSIS

October 31, 2018

distributions during the third quarter were characterized as 100% return of capital. Dividends paid to Exchangeable shareholders are fully taxable and result in the recovery of refundable dividend tax.

| (\$ thousands) | Qtr. 3 | | Nine months | |
|--|---------------|--------------|---------------|---------------|
| | 2018 | 2017 | 2018 | 2017 |
| Cash provided by operating activities | 5,374 | 5,475 | 14,702 | 19,546 |
| Changes in non-cash working capital..... | 3,532 | 2,238 | 8,479 | 1,440 |
| Income tax payments..... | 2,970 | 2,207 | 11,221 | 9,224 |
| Adjusted EBITDA ¹ | 11,876 | 9,920 | 34,402 | 30,210 |
| Interest ^(a) | 561 | 661 | 1,652 | 1,696 |
| Current income tax..... | 2,852 | 4,149 | 8,427 | 9,811 |
| Maintenance capital..... | 881 | 302 | 1,578 | 852 |
| Distributable cash flow ² | 7,582 | 4,808 | 22,745 | 17,851 |
| <i>Diluted per Unit</i> | <i>64.8¢</i> | <i>41.1¢</i> | <i>\$1.95</i> | <i>\$1.53</i> |
| Distributions | 3,893 | 3,886 | 11,672 | 11,094 |
| <i>Diluted per Unit</i> | <i>33.3¢</i> | <i>33.2¢</i> | <i>99.8¢</i> | <i>94.9¢</i> |
| <i>Payout ratio</i> ³ | <i>51%</i> | <i>81%</i> | <i>51%</i> | <i>62%</i> |
| Free cash flow ² | 3,689 | 922 | 11,073 | 6,757 |
| Units outstanding (average) | | | | |
| <i>Diluted basis 000's</i> | 11,693 | 11,693 | 11,693 | 11,693 |

a) financial expenses less bank refinancing fees

Liquidity and Financing

Cash provided by operating activities

Cash provided by operating activities for the third quarter was \$5.4 million, down \$0.1 million over the same period in 2017 due to increases in changes in non-cash working capital and income tax payments offset by the increase in profit from operations. During the third quarter, non-cash working capital increased by \$3.5 million due to higher inventories of \$3.5 million and accounts receivable of \$3.2 million offset by higher accounts payable of \$3.2 million. For the nine months, cash provided by operating activities was down \$4.8 million due to increases in changes in non-cash working capital and higher tax payments offset by higher profit from operations. Non-cash working capital increased \$8.5 million as increases in accounts receivable \$7.1 million, inventory \$6.2 million and prepaids \$0.5 million were offset by higher accounts payable of \$5.3 million.

The financial structure of the Fund allows for maximum distributions of cash flow provided by operating activities to the Unitholders and exchangeable shareholders as outlined above in the distributable cash discussion. Actual distributions paid during the third quarter, including those declared for June 2018, were \$3.9 million with \$1.3 million declared for September, which was paid October 12th.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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Current income taxes

Current income tax expense decreased \$1.3 million for the third quarter and \$1.4 million for the nine months mainly due to intercompany financing in 2017 as \$0.4 mil. in US tax reform savings and \$0.1 mil. refundable dividend tax recovery were fully offset by taxes associated with higher Income before income taxes.

Capital expenditures

Maintenance capital expenditures for the nine months were \$1.6 million mainly comprised of refurbishment of moulds and \$0.5 million for the installation of a high productivity warehousing solution. Expansion capital expenditures for the nine months were \$0.1 million (2017 – \$0.5 million) primarily for the addition of manufacturing equipment for new customer programs.

Financing activities

Credit facilities include a \$29.0 million term loan (2017 – \$36.0 million) with maturity on September 30, 2021 and up to \$5.0 million in revolving debt to fund working capital expansion. The revolving and term loan facilities bear interest at BA's plus a premium of 1.15% to 1.80% or a prime rate plus a premium of 0.15% to 0.80%. During the third quarter, \$1.0 million was repaid (2017 – \$1.0 million).

On September 30, 2018, the term and revolving credit facilities were extended to September 30, 2021 on substantially the same terms and conditions at a cost of \$0.1 million.

The credit facilities are subject to a number of covenants including the leverage ratio which is to maintain debt less than 2.75 times the trailing twelve months Adjusted EBITDA¹. As at September 30, 2018, our leverage ratio was 0.6 times. Combined with cash flow provided by operating activities, management believes that adequate financing will be available for the foreseeable future⁴.

Outlook⁴

Management believes that the performance of Richards Packaging is on track to meet ongoing requirements for working capital, capital expenditures and to sustain monthly distributions to Unitholders at the current level through 2018.

For the fourth quarter, exchange translation at the current exchange rate of U.S./Cdn. 76.7¢ has weakened 2¢ over the same period in 2017. The sensitivity for every 1¢ movement in the exchange rate to revenue is \$0.4 million, to Adjusted EBITDA is \$0.05 million and to Distributable cash flow² is \$0.03 million.

Distributable cash flow² from Richards Packaging US and Richards Canada's current tax profile are expected to allow for a full return of capital to Unitholders in the fourth quarter.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

October 31, 2018

Risks and Uncertainties

Investment in Units involves risks inherent in the ordinary course of business including: changes in China tariff rates, 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, patent and trademark challenges, inventory obsolescence, trade risks, resin price and exchange rate fluctuations, interest rate volatility, liquidity risks, 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 2017 Annual Information Form dated March 1, 2018. To management's knowledge, no significant changes to these risks and uncertainties have occurred in the nine months of 2018.

Critical Accounting Estimates

Preparation of the consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions which affect the reported, and disclosure of, amounts for assets and liabilities as at September 30, 2018 and revenue and expenses for the period then ended. There have not been any significant changes in the critical accounting estimates in the nine months of 2018, relative to December 31, 2017. For more information on critical accounting estimates, see the Management's Discussion and Analysis, the audited consolidated financial statements and the notes to the consolidated financial statements included in the Fund's 2017 Annual Report.

Disclosure Controls and Internal Controls over Financial Reporting

There have been no changes in the Fund's internal controls over financial reporting during the nine months that have materially affected, or are reasonably likely to materially affect, its internal controls over financial reporting.

Cautionary Statements

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

1 Management defines Adjusted EBITDA as earnings before amortization, exceptional items, contingent consideration revaluation, financial expenses, unrealized losses and dividends on exchangeable shares, share of income – Vision and taxes. Adjusted EBITDA is the same as profit from operations as outlined in the annual financial statements after adding back amortization and contingent consideration revaluation. Management believes that in addition to net income, Adjusted EBITDA is a useful supplemental measure for investors of earnings available for distribution prior to debt service, capital expenditures and taxes. Management uses 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 operating performance. This earnings measure should not be construed as an alternative to net income and income per Unit 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.

Richards Packaging Income Fund

MANAGEMENT'S DISCUSSION AND ANALYSIS

October 31, 2018

- 2 Management defines distributable cash flow, in accordance with Richards Packaging's credit agreement, as Adjusted EBITDA¹ less interest, cash income tax expense, and maintenance capital expenditures plus dividends from equity investments. The reconciliation to cash from operations can be found on page 6. Free cash flow is distributable cash flow less distributions. The objective of presenting this measure is to calculate the amount which is available for distribution to Unitholders or exchangeable shareholders and to determine the amount available to fund increases in working capital or expansion capital. Investors are cautioned that distributable cash flow should not be construed as an alternative to cash flow from operating, investing and financing activities or as a measure of liquidity and cash flows. Distributable cash flow does not have a standardized meaning prescribed by IFRS and therefore the method of calculating distributable cash flow may not be comparable to similar measures presented by other companies.
- 3 Management defines payout ratio as distributions declared over distributable cash flow². The objective of presenting this measure is to calculate the percentage of distributions compared to the amount available for distribution under our credit agreement. Payout ratio does not have a standardized meaning prescribed by IFRS. The method of calculating payout ratio may not be comparable to similar measures presented by other companies.
- 4 The Report to Unitholders and this MD&A contains forward-looking information within the meaning of applicable securities laws. The forward-looking information reflects management's current beliefs and expectations regarding the future growth, results of operations, performance and business prospects and opportunities of the Fund and Richards Packaging. We use words such as "may", "will", "should", "anticipate", "plan", "expect", "believe", "predict", "estimate" and similar terminology to identify forward-looking information. It is based on assumptions, estimates and analysis made by us in light of our experience and our perception of trends, current conditions and expected developments, as well as other factors we believe to be reasonable and relevant in the circumstances. Forward-looking information involves significant known and unknown risks, uncertainties and other factors which may cause our actual results, performance or achievements to be materially different from those predicted, expressed or implied by the forward-looking information. Readers should not place undue reliance on forward-looking information as a number of factors could cause actual events, results and prospects to differ materially from those expressed in or implied by the forward-looking information. The risks and uncertainties include, among other things, changes in China tariff rates, changes in customer and supplier relationships, competition in the industry, inventory obsolescence, trade risks in respect of foreign suppliers, fluctuations in foreign exchange and interest rates, liability claims, reliance on key personnel, compliance and environmental, trade and other laws, as well as other risks and uncertainties, as more fully described in other reports and filings made by us with securities regulatory authorities and available at www.sedar.com. While management believes the expectations expressed and the assumptions underlying same are reasonable, there can be no assurance that such expectations and assumptions will prove to be correct. In evaluating forward-looking information, readers should carefully consider the foregoing factors and various other factors which could cause actual results or events to differ materially from those indicated in the forward-looking information.

Notice to Unitholders

The attached consolidated financial statements have not been reviewed
by the Fund's external auditors

Richards Packaging Income Fund

STATEMENTS OF NET INCOME AND COMPREHENSIVE INCOME

Unaudited

For the three and nine months ended September 30

[Consolidated]

| <i>Cdn\$ thousands</i> | Notes | Three months | | Nine months | |
|--|--------------|---------------------|-------------|--------------------|-------------|
| | | 2018 | 2017 | 2018 | 2017 |
| Revenue | 2 | 81,413 | 73,546 | 236,273 | 224,149 |
| Cost of products sold | | 67,288 | 61,400 | 195,020 | 187,428 |
| Administrative expenses | | 3,101 | 3,077 | 9,193 | 9,115 |
| Foreign currency loss (gain) | | (29) | 92 | 58 | 230 |
| Contingent consideration revaluation | | — | — | — | 83 |
| Profit from operations | | 11,053 | 8,977 | 32,002 | 27,293 |
| Financial expenses | | 595 | 661 | 1,726 | 1,720 |
| Exchangeable shares | | | | | |
| Mark-to-market loss (gain) | 5 | 1,831 | (1,188) | 7,101 | 3,039 |
| Distributions | | 298 | 294 | 888 | 880 |
| Share of income - Vision | | (16) | 1 | (8) | (39) |
| Income before income taxes | | 8,345 | 9,209 | 22,295 | 21,693 |
| Income tax expense (income) | | | | | |
| Current taxes | 3 | 2,852 | 4,149 | 8,427 | 9,811 |
| Deferred taxes | 3 | 24 | (130) | (271) | (563) |
| | | 2,876 | 4,019 | 8,156 | 9,248 |
| Net income for the period | | 5,469 | 5,190 | 14,139 | 12,445 |
| Basic income per Unit | 5 | 50.2¢ | 47.6¢ | \$1.30 | \$1.15 |
| Diluted income per Unit | 5 | 50.2¢ | 36.7¢ | \$1.30 | \$1.15 |
| Other comprehensive income (loss) | | | | | |
| <i>(subsequently recyclable to net income)</i> | | | | | |
| Richards Packaging US | | | | | |
| Currency translation adjustment | | (1,564) | (3,276) | 2,816 | (6,067) |
| Comprehensive income for the period | | 3,905 | 1,914 | 16,955 | 6,378 |

See accompanying notes

“Susan Allen”
Chair – Audit Committee

“Gerry Glynn”
CEO – Richards Packaging Inc.

“Enzio Di Gennaro”
CFO – Richards Packaging Inc.

Richards Packaging Income Fund

STATEMENTS OF FINANCIAL POSITION

Unaudited

As at September 30 and December 31

[Consolidated]

[2017 restated – note 2]

| <i>Cdn\$ thousands</i> | Notes | Sept. 30 | | Dec. 31 | |
|--|--------------|-----------------|----------------|----------------|----------------|
| | | 2018 | 2017 | 2017 | 2016 |
| ASSETS | | | | | |
| Current assets | | | | | |
| Cash and cash equivalents | | 2,303 | 2,086 | 6,816 | 13,257 |
| Accounts receivable | 2 | 36,745 | 32,593 | 29,218 | 32,827 |
| Inventory | | 55,944 | 45,744 | 48,801 | 47,791 |
| Prepaid expenses and deposits | | 4,219 | 2,792 | 3,631 | 3,172 |
| | | 99,211 | 83,215 | 88,466 | 97,047 |
| Plant and equipment | | 4,737 | 4,149 | 4,080 | 3,909 |
| Investment - Vision | | 753 | 779 | 745 | 740 |
| Intangible assets | | 13,821 | 15,008 | 14,915 | 17,459 |
| Goodwill | | 84,824 | 83,376 | 83,578 | 86,326 |
| | | 203,346 | 186,527 | 191,784 | 205,481 |
| LIABILITIES AND EQUITY | | | | | |
| Current liabilities | | | | | |
| Accounts payable and accruals | | 37,578 | 27,985 | 31,842 | 29,562 |
| Income tax payable | 3 | 243 | 1,697 | 3,037 | 1,110 |
| Distributions payable | | 1,297 | 1,295 | 1,296 | 1,104 |
| Contingent consideration | | — | — | — | 10,439 |
| Due to previous shareholder | | 1,020 | 984 | 989 | 961 |
| Exchangeable shares | 5 | 31,938 | 22,694 | 24,837 | 20,904 |
| | | 72,076 | 54,655 | 62,001 | 64,080 |
| Term debt | 4 | 28,944 | 35,927 | 33,440 | 41,854 |
| Deferred income taxes | 3 | 4,269 | 5,369 | 4,461 | 6,191 |
| Equity | | | | | |
| Unitholders' capital | 5 | 18,304 | 26,644 | 23,049 | 35,802 |
| Retained earnings | | 67,618 | 55,319 | 59,514 | 42,874 |
| Accumulated other comprehensive income | | 12,135 | 8,613 | 9,319 | 14,680 |
| | | 98,057 | 90,576 | 91,882 | 93,356 |
| | | 203,346 | 186,527 | 191,784 | 205,481 |

See accompanying notes

Richards Packaging Income Fund

STATEMENT OF CHANGES IN EQUITY

Unaudited

For the three and nine months ended September 30

[Consolidated]

| <i>Cdn\$ thousands</i> | Notes | Unitholders' capital | Retained earnings | AOCI^{a)} | |
|-----------------------------|--------------|---------------------------------|------------------------------|--------------------------|----------|
| June 30, 2017 | | 29,845 | 50,129 | 11,889 | 91,863 |
| Comprehensive income (loss) | | | 5,190 | (3,276) | 1,914 |
| Share conversion | | 391 | | | 391 |
| Distributions | | (3,592) | | | (3,592) |
| September 30, 2017 | | 26,644 | 55,319 | 8,613 | 90,576 |
| June 30, 2018 | | 21,899 | 62,149 | 13,699 | 97,747 |
| Comprehensive income (loss) | | | 5,469 | (1,564) | 3,905 |
| Distributions | | (3,595) | | | (3,595) |
| September 30, 2018 | | 18,304 | 67,618 | 12,135 | 98,057 |
| December 31, 2016 | | 35,802 | 42,874 | 14,680 | 93,356 |
| Comprehensive income (loss) | | | 12,445 | (6,067) | 6,378 |
| Share conversion | | 1,249 | | | 1,249 |
| Distributions | | (10,407) | | | (10,407) |
| September 30, 2017 | | 26,644 | 55,319 | 8,613 | 90,576 |
| December 31, 2017 | | 23,049 | 59,514 | 9,319 | 91,882 |
| Comprehensive income (loss) | | | 14,139 | 2,816 | 16,955 |
| Distributions | | (4,745) | (6,035) | | (10,780) |
| September 30, 2018 | | 18,304 | 67,618 | 12,135 | 98,057 |

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

See accompanying notes

Richards Packaging Income Fund

STATEMENT OF CASH FLOWS

Unaudited

For the three and nine months ended September 30

[Consolidated]

| <i>Cdn\$ thousands</i> | Notes | Three months | | Nine months | |
|---|--------------|---------------------|----------------|--------------------|-----------------|
| | | 2018 | 2017 | 2018 | 2017 |
| OPERATING ACTIVITIES | | | | | |
| Profit from operations | | 11,053 | 8,977 | 32,002 | 27,293 |
| Add items not involving cash | | | | | |
| Plant and equipment depreciation | | 395 | 339 | 1,065 | 971 |
| Intangible assets amortization | | 428 | 604 | 1,335 | 1,863 |
| Contingent consideration revaluation | | — | — | — | 83 |
| Income tax payments | 3 | (2,970) | (2,207) | (11,221) | (9,224) |
| Changes in non-cash working capital | 6 | (3,532) | (2,238) | (8,479) | (1,440) |
| Cash provided by operating activities | | 5,374 | 5,475 | 14,702 | 19,546 |
| INVESTING ACTIVITIES | | | | | |
| Additions to plant and equipment | | (881) | (546) | (1,666) | (1,324) |
| Acquisition, contingent consideration | | — | — | — | (10,425) |
| Cash used in investing activities | | (881) | (546) | (1,666) | (11,749) |
| FINANCING ACTIVITIES | | | | | |
| Repayment of term debt | | (1,000) | (1,000) | (4,500) | (6,000) |
| Financial expenses paid | | (561) | (643) | (1,652) | (1,679) |
| Distributions paid to Exchangeable Shareholders | | (298) | (294) | (888) | (880) |
| Distributions paid to Unitholders | | (3,595) | (3,592) | (10,785) | (10,214) |
| Cash used in financing activities | | (5,454) | (5,529) | (17,825) | (18,773) |
| Net cash flow for the period | | (961) | (600) | (4,789) | (10,976) |
| Cash, beginning of period | | 3,318 | 2,818 | 6,816 | 13,257 |
| Foreign exchange effect | | (54) | (132) | 276 | (195) |
| Cash, end of period | | 2,303 | 2,086 | 2,303 | 2,086 |

See accompanying notes

Richards Packaging Income Fund

NOTES TO INTERIM FINANCIAL STATEMENTS

Unaudited

September 30, 2018

[Cdn\$ thousands]

1. BASIS OF PRESENTATION

These condensed interim financial statements of the Fund have been prepared in accordance with International Financial Reporting Standard [“IFRS”] IAS 34 *Interim Financial Reporting*. As such these statements do not contain all the explanatory notes, descriptions or accounting policies or other disclosures that can be found in the Fund’s 2017 audited annual financial statements. The accounting policies used in the preparation of these condensed interim financial statements are consistent with the 2017 audited annual financial statements except as described in Note 2.

2. NEW ACCOUNTING PRONOUNCEMENTS

The following changes have been made in response to an Ontario Securities Commission review of our continuous disclosure filings: a) The subtotals “Working Capital”, “Net Operating Assets” and “Capital” were removed from, and two categories – “Total Assets” and “Liabilities and Equity” have been added to, the Statement of Financial Position; b) Revenue has been disaggregated into categories as outlined below; and c) the disclosures surrounding the adoption of IFRS 9 – Financial instruments have been expanded as outlined below.

Effective January 1, 2018 IFRS 9 *Financial Instruments* and IFRS 15, *Revenue from Contracts with Customers* were adopted.

Financial instruments introduced new measurement categories effective for January 1, 2018, the differences from IAS 39 of which are shown below:

| | Measurement Category | | Carrying Amount | |
|-------------------------------|-----------------------------|----------------------------|-----------------|--------|
| | IAS 39 | IFRS 9 | IAS 39 | IFRS 9 |
| Financial assets | | | | |
| Cash and cash equivalents | Loans and receivables | Amortized cost | 6,816 | 6,816 |
| Accounts receivable | Loans and receivables | Amortized cost | 29,218 | 29,218 |
| Financial liabilities | | | | |
| Accounts payable and accruals | Other financial liabilities | Amortized cost | 31,842 | 31,842 |
| Distributions payable | Other financial liabilities | Amortized cost | 1,296 | 1,296 |
| Due to previous shareholder | Other financial liabilities | Amortized cost | 989 | 989 |
| Term debt | Other financial liabilities | Amortized cost | 33,440 | 33,440 |
| Exchangeable shares | Fair value - Profit & Loss | Fair value - Profit & Loss | 24,837 | 24,837 |

Financial instruments also requires, when evaluating the allowance for doubtful accounts receivable, the use of an expected credit loss model rather than an incurred loss analysis. Richards Packaging uses the simplified approach to assessing the expected lifetime credit losses on its trade receivables. Implementation of the model did not result in a material change to the allowance for doubtful accounts as at January 1, 2018.

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 is complete. Revenue associated with the sale of maintenance on capital goods is recognized on a straight-line basis over the contractual

Richards Packaging Income Fund

NOTES TO INTERIM FINANCIAL STATEMENTS

Unaudited

September 30, 2018

[Cdn\$ thousands]

maintenance 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.

Revenue is disaggregated in the following manner:

| | Three months | | Nine months | |
|-----------------------------|---------------|---------------|----------------|----------------|
| | 2018 | 2017 | 2018 | 2017 |
| Revenue by geography | | | | |
| Canada | 35,410 | 34,199 | 105,931 | 102,799 |
| US | 46,003 | 39,347 | 130,342 | 121,350 |
| | 81,413 | 73,546 | 236,273 | 224,149 |
| Revenue by end user | | | | |
| Cosmetics | 24,019 | 20,092 | 68,471 | 63,310 |
| Healthcare | 18,394 | 16,725 | 54,473 | 50,133 |
| Food, beverage & other | 39,000 | 36,729 | 113,329 | 110,706 |
| | 81,413 | 73,546 | 236,273 | 224,149 |

3. INCOME TAXES

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

| | Three months | | Nine months | |
|--|---------------|--------------|---------------|---------------|
| | 2018 | 2017 | 2018 | 2017 |
| Profit from operations | 11,053 | 8,977 | 32,002 | 27,293 |
| Financial expenses | (595) | (661) | (1,726) | (1,720) |
| Contingent consideration revaluation | — | — | — | 83 |
| Income subject to income taxes | 10,458 | 8,316 | 30,276 | 25,656 |
| Statutory tax rate | 26.7% | 26.7% | 26.8% | 26.7% |
| Income tax expense at statutory tax rate | 2,792 | 2,220 | 8,107 | 6,849 |
| Deferred income taxes | (24) | 130 | 271 | 563 |
| Current period adjustments | | | | |
| Refinancing Intercompany notes | (48) | 1,281 | (144) | 1,281 |
| Foreign tax differential | — | (210) | — | (666) |
| Foreign rate differential | 72 | 503 | 92 | 1,562 |
| Withholding tax | — | 250 | — | 250 |
| Other items | 60 | (25) | 101 | (28) |
| Current income taxes | 2,852 | 4,149 | 8,427 | 9,811 |

Richards Packaging Income Fund

NOTES TO INTERIM FINANCIAL STATEMENTS

Unaudited

September 30, 2018

[Cdn\$ thousands]

4. REVOLVING AND TERM DEBT

On September 30, 2018, the term and revolving credit facilities were extended to September 30, 2021 on substantially the same terms and conditions at a cost of \$56. The term facility of \$29,000 bears interest at the bankers' acceptance borrowing rate plus a premium of 1.15% to 1.8%.

5. UNITS AND EXCHANGEABLE SHARES

Exchangeable shares mark-to-market loss reflects a unit price increase during the nine months ended September 30, 2018 of 8.88 to \$40.05 per Unit.

| <i>Number outstanding</i> | Units basic | Weighted average | Exchangeable Shares | Units diluted | Weighted average |
|---------------------------|------------------------|-----------------------------|--------------------------------|--------------------------|-----------------------------|
| December 31, 2016 | 10,846,578 | 10,846,578 | 846,435 | 11,693,013 | 11,693,013 |
| Share conversion | 33,000 | | (33,000) | | |
| June 30, 2017 | 10,879,578 | 10,879,578 | 813,435 | 11,693,013 | 11,693,013 |
| Share conversion | 13,787 | | (13,787) | | |
| September 30, 2017 | 10,893,365 | 10,893,365 | 799,648 | 11,693,013 | 11,693,013 |
| nine months | | 10,868,921 | 824,092 | | 11,693,013 |
| December 31, 2017 | 10,893,365 | 10,875,082 | 799,648 | 11,693,013 | 11,693,013 |
| June 30, 2018 | 10,893,365 | 10,893,365 | 799,648 | 11,693,013 | 11,693,013 |
| September 30, 2018 | 10,893,365 | 10,893,365 | 799,648 | 11,693,013 | 11,693,013 |
| nine months | | 10,893,365 | 799,648 | | 11,693,013 |

The impact on income per Unit of the mark-to-market loss and distributions to shareholders is anti-dilutive which reverts to basic income per Unit. The calculation of the diluted income per Unit would yield \$0.65 for the three months and \$1.89 for the nine-month period of 2018 [2017 – \$1.40].

Richards Packaging Income Fund

NOTES TO INTERIM FINANCIAL STATEMENTS

Unaudited

September 30, 2018

[Cdn\$ thousands]

6. ADDITIONAL CASH FLOW INFORMATION

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

| | Three months | | Nine months | |
|-------------------------------------|---------------------|-------------|--------------------|-------------|
| | 2018 | 2017 | 2018 | 2017 |
| Accounts receivable | (3,250) | (1,402) | (7,056) | (939) |
| Inventory | (3,566) | (1,581) | (6,206) | (62) |
| Prepaid expenses and deposits | 40 | 957 | (537) | 246 |
| Accounts payable and accruals | 3,244 | (212) | 5,321 | (685) |
| Changes in non-cash working capital | (3,532) | (2,238) | (8,478) | (1,440) |

The foreign exchange translation impact excluded from the above was \$714 loss [2017 – \$1,393 loss] and \$1,109 gain [2017 – \$2,533 loss] for the three and nine month periods respectively.