MANAGEMENT'S REPORT TO UNITHOLDERS

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 6, 2019.

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"	*"Gerry Glynn"*	*"Enzio Di Gennaro"*
Chair Audit Committee	Chief Executive Officer Richards Packaging Inc.	Chief Financial Officer Richards Packaging Inc.

Toronto, Ontario
March 6, 2019

Independent auditor's report

To the Unitholders of Richards Packaging Income Fund

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Richards Packaging Income Fund and its subsidiaries (together, the Company) as at December 31, 2018, 2017 and 2016, and its financial performance and its cash flows for the years ended December 31, 2018 and 2017 in accordance with International Financial Reporting Standards (IFRS).

What we have audited
The Company's consolidated financial statements comprise:

- the consolidated statements of net income and comprehensive income for the years ended December 31, 2018 and 2017;
- the consolidated statements of financial position as at December 31, 2018, 2017 and 2016;
- the consolidated statements of changes in equity for the years ended December 31, 2018 and 2017;
- the consolidated statements of cash flows for the years ended December 31, 2018 and 2017; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

Other information

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis and the information, other than the consolidated financial statements and our auditor's report thereon, included in the annual report.
Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(Signed) "PricewaterhouseCoopers LLP"

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Ontario
March 6, 2019

Richards Packaging Income Fund

STATEMENTS OF NET INCOME AND COMPREHENSIVE INCOME

For the years ended December 31 *[Consolidated]*

Cdn$ thousands, unless otherwise noted	Notes	2018	2017
Revenue	*5*	**318,058**	296,580
Cost of sales	*6*	**262,691**	247,090
Administrative expenses	*6*	**12,517**	12,357
Foreign currency loss (gain)	*19*	**191**	(115)
Contingent consideration revaluation	*4*	**—**	83
Profit from operations		**42,659**	37,165
Financial expenses	*15*	**2,323**	2,306
Exchangeable shares			
Mark-to-market loss	*16*	**3,063**	5,182
Distributions	*16*	**1,189**	1,175
Share of income - Vision	*18*	**(1)**	(5)
Income tax expense (income)			
Current taxes	*7*	**12,281**	13,373
Deferred taxes	*7*	**(316)**	(1,506)
		11,965	11,867
Net income		**24,120**	16,640
Basic and diluted income per Unit	*16*	***$2.21***	*$1.53*
Other comprehensive income			
(subsequently recyclable to Net income)			
Currency translation adjustment - Richards Packaging US	*2*	**7,621**	(5,361)
Comprehensive income		**31,741**	11,279

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

Richards Packaging Income Fund

STATEMENTS OF FINANCIAL POSITION

As at December 31				*[Consolidated]*
				[2017 and 2016 restated – note 3]
Cdn$ thousands	**Notes**	**2018**	**2017**	**2016**
ASSETS				
Current Assets				
Cash and cash equivalents	*8*	**6,168**	6,816	13,257
Accounts receivable	*9*	**34,395**	29,218	32,827
Inventory	*10*	**60,663**	48,801	47,791
Prepaid expenses and deposits	*11*	**5,453**	3,631	3,172
		106,679	88,466	97,047
Long-term Assets				
Plant and equipment	*13*	**4,797**	4,080	3,909
Investment - Vision	*18*	**726**	745	740
Intangible assets	*14*	**13,775**	14,915	17,459
Goodwill	*14*	**86,996**	83,578	86,326
	5	**106,294**	103,318	108,434
		212,973	191,784	205,481
LIABILITIES & EQUITY				
Current Liabilities				
Accounts payable and accruals	*12*	**40,466**	31,842	29,562
Income tax payable	*7*	**1,189**	3,037	1,110
Distributions payable	*16*	**1,300**	1,296	1,104
Contingent consideration	*4*	—	—	10,439
Due to previous shareholder	*12*	**1,075**	989	961
Exchangeable shares	*16*	**27,900**	24,837	20,904
		71,930	62,001	64,080
Long-term Liabilities				
Term debt	*15*	**27,441**	33,440	41,854
Deferred income taxes	*7*	**4,354**	4,461	6,191
		31,795	37,901	48,045
Equity				
Unitholders' capital	*16*	**14,710**	23,049	35,802
Retained earnings		**77,598**	59,514	42,874
Accumulated other comprehensive income	*2*	**16,940**	9,319	14,680
		109,248	91,882	93,356
		212,973	191,784	205,481
Commitments and contingencies	*19,20*			

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

STATEMENTS OF CHANGES IN EQUITY

For the years ended December 31 *[Consolidated]*

Cdn$ thousands	**Notes**	**Unitholders' capital**	**Retained earnings**	**AOCI[a)]**	**Equity**
December 31, 2016		35,802	42,874	14,680	93,356
Comprehensive income (loss)			16,640	(5,361)	11,279
Distributions		(14,002)			(14,002)
Share conversion	*16*	1,249			1,249
December 31, 2017		23,049	59,514	9,319	91,882
Comprehensive income			**24,120**	**7,621**	**31,741**
Distributions[b)]	*16*	**(8,339)**	**(6,036)**		**(14,375)**
December 31, 2018		**14,710**	**77,598**	**16,940**	**109,248**

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

b) The $6,036 represents capital dividends paid to Unitholders.

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

Richards Packaging Income Fund

STATEMENTS OF CASH FLOWS

For the years ended December 31 *[Consolidated]*

Cdn$ thousands	Notes	2018	2017
OPERATING ACTIVITIES			
Profit from operations		**42,659**	37,165
Add items not involving cash			
Plant and equipment depreciation	*13*	**1,532**	1,337
Intangible assets amortization	*14*	**1,768**	1,975
Contingent consideration revaluation	*4*	**—**	83
Income tax payments	*7*	**(14,178)**	(11,455)
Dividends - Vision	*18*	**20**	—
Changes in non-cash working capital	*21*	**(6,945)**	2,067
Cash provided by operating activities		**24,856**	31,172
INVESTING ACTIVITIES			
Additions to plant and equipment	*13*	**(2,069)**	(1,612)
Acquisition, contingent consideration	*4*	**—**	(10,425)
Cash used in investing activities		**(2,069)**	(12,037)
FINANCING ACTIVITIES			
Repayment of term debt	*15*	**(6,000)**	(8,500)
Financial expenses paid	*15*	**(2,323)**	(2,223)
Distributions paid to Exchangeable Shareholders	*16*	**(1,185)**	(1,168)
Distributions paid to Unitholders	*16*	**(14,379)**	(13,818)
Cash used in financing activities		**(23,886)**	(25,709)
Net cash flow for the year		**(1,099)**	(6,574)
Cash and cash equivalents, beginning of year	*8*	**6,816**	13,257
Foreign exchange effect		**451**	133
Cash and cash equivalents, end of year	*8*	**6,168**	6,816

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"]. 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 except as described in Note 3. Significant accounting policies are summarized as follows:

Principles of consolidation

The financial statements include the accounts of the Fund, Richards Packaging Holdings Inc. ["Holdings"] and their subsidiaries: Richards Packaging Inc. ["Richards Canada"], Healthmark Services Ltd. ("Healthmark"), Richards Packaging Holdings (US) Inc., 071907 Inc., Richards Packaging, Inc., The E.J. McKernan Company and McKernan Packaging - Richards de Mexico, S.A. de c.v. [collectively "Richards Packaging US"]. 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. Holdings and its subsidiaries are referred to as "Richards Packaging".

Foreign currency translation

The Canadian dollar is the functional currency for the Fund and its Canadian investments, except for Richards Packaging US, and therefore 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 from foreign currency translations are included in profit from operations.

Richards Packaging 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 included in equity as accumulated other comprehensive income (loss). Upon any future sale of Richards Packaging US, the cumulative translation gain (loss) 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 the 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 allowances for doubtful accounts, inventory obsolescence and the testing for impairment of long-term assets are critical accounting estimates that involve a high degree of 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 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.

Operating leases

Rental payments and lease inducements are expensed on a straight-line basis over the term of the leases.

Income taxes

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

Inventory

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

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

Intangible assets and Goodwill

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 amortized over 10 to 15 years, patents were amortized over 12 years and computer systems software is amortized over 5 years. Trademarks have indefinite lives and therefore are not amortized. At the acquisition date, goodwill is recorded at the excess of the purchase price of an acquired business over fair value of the net assets acquired.

Impairment testing of long-term assets

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

Exchangeable shares

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

3. FINANCIAL STATEMENT PRESENTATION & NEW ACCOUNTING PRONOUNCEMENTS

In response to an Ontario Securities Commission review of our continuous disclosure filings the subtotals "Working Capital", "Net Operating Assets" and "Capital" were removed from, and two subtotals - "Assets" and "Liabilities and Equity" have been added to, the Statement of Financial Position for 2018, 2017 and 2016.

The Fund adopted IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers* on a modified retrospective basis for the annual period beginning on January 1, 2018. Accordingly, revenue has been disaggregated into new categories *[note 5]*. Financial instruments required the use of an expected credit loss model rather than an incurred loss analysis when evaluating the allowance for doubtful accounts receivable *[note 9]*. Richards Packaging used the simplified approach to assess 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. Richards Packaging does not undertake hedging activities or hold complex financial assets or liabilities as envisioned in IFRS 9. The new measurement category differences from IAS 39 are outlined below:

December 31, 2018 and 2017 [Cdn$ thousands, unless otherwise noted]

	Measurement Category		Carrying Amount	
	IAS 39	IFRS 9	IAS 39	IFRS 9
Finacial 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 - Net income	Fair value - Net income	**23,837**	23,837

IFRS 16 *Leases* will be adopted on January 1, 2019 on a modified retrospective basis requiring us to capitalize and depreciate the present value of leases on a straight-line basis over their expected terms, after adjusting for implied financial expenses calculated utilizing the effective interest rate method. The impact is expected to increase long-term assets and long-term liabilities on the statements of financial position by approximately $33,000 *[note 20]*. The Fund is evaluating the impact to net income and note disclosures and we expect the income statement will reflect a reduction in the cost of sales by an approximate amount equal to the sum of the associated increase in depreciation and financial expenses for the year ending December 31, 2019. The statement of cash flow will highlight the principal payments in operating activities and include the interest payments in financial expenses.

4. ACQUISITION

At December 31, 2016, Richards Packaging had accrued contingent consideration of $10,439 payable to the previous shareholders in connection with the acquisition of Healthmark Services Ltd. and had $97 due from the previous shareholders. Final adjustments in 2017 resulted in additional consideration of $83 reflected in the Statement of income and on March 31, 2017, $10,425 was paid as a net settlement.

5. REVENUE & SEGMENTED INFORMATION

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

	Canada		United States	
	2018	2017	2018	2017
Revenue	**143,979**	138,716	**174,079**	157,864
Long-term assets	**51,259**	50,489	**55,035**	52,829

December 31, 2018 and 2017 [Cdn$ thousands, unless otherwise noted]

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

	2018	2017
Revenue by end user		
Cosmetics	**92,442**	80,124
Healthcare	**75,419**	68,647
Food, beverage & other	**150,198**	147,808
	318,058	296,580

6. EXPENSES BY NATURE

	2018	2017
Salaries and wages	**23,211**	22,286
Benefits	**4,832**	4,556
Bonuses	**1,934**	1,956
Long-term incentive plan	**165**	120
Employee compensation	**30,142**	28,918
Inventory sold and services provided	**208,357**	195,431
Inventory provisions	**1,386**	2,088
Selling, distribution and other costs	**25,727**	24,285
Depreciation and amortization	**3,300**	3,312
Lease expenses	**6,296**	5,413
Cost of sales and administrative expenses	**275,208**	259,447

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 2018. Total salaries and benefits for executive officers was $1,454 [2017 – $1,445].

7. INCOME TAXES

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

December 31, 2018 and 2017 [Cdn$ thousands, unless otherwise noted]

	2018	**2017**
Profit from operations	**42,659**	37,165
Financial expenses	**(2,323)**	(2,306)
Contingent consideration revaluation	**—**	83
Income subject to income taxes	**40,336**	34,942
Statutory tax rate	*26.8%*	*26.7%*
Income tax expense at statutory tax rate	**10,818**	9,333
Deferred income taxes	**316**	1,506
Current period adjustments		
Refinancing Intercompany notes [a)]	**1,054**	2,224
Foreign tax differential	**(128)**	(863)
Foreign rate differential	**156**	2,039
Impact of change in US tax rates	—	(933)
Withholding tax on Richards Packaging US dividends (@5%)	—	122
Other items	**65**	(55)
Current income taxes	**12,281**	13,373

a) future recovery associated with refundable dividend tax on hand of $1,857 [2017 - $1,216] has not been recognized. Fully taxable exchangeable share dividends gave rise to a $192 recovery (2017 - $192).

Approximately US$16,000 of unremitted earnings in Richards US as of December 31, 2018 is permanently reinvested and therefore the associated withholding tax is not recognized.

Significant components of deferred income taxes are as follows:

	2018	**expense/ (income)**	**f/x** [b)]	**2017**	**expense/ (income)**	**f/x**	**2016**
Deferred tax liabilities							
Customer relationships[a)]	**2,552**	**(480)**	**83**	**2,949**	(1,001)	(114)	4,064
Patents and trademarks[a)]	**1,228**		**94**	**1,134**	(438)	(89)	1,661
Plant and equipment	**927**	**185**	**45**	**697**	14	(31)	714
Computer system software					(1)		1
Other	**86**	**(28)**	**22**	**92**	(122)	(20)	234
Deferred tax assets							
Non-cash working capital	**(439)**	**7**	**(35)**	**(411)**	42	30	(483)
	4,354	**(316)**	**209**	**4,461**	(1,506)	(224)	6,191

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

b) f/x = foreign exchange differences

December 31, 2018 and 2017 [Cdn$ thousands, unless otherwise noted]

8. CASH

	2018	2017
Cash at bank	**6,424**	6,362
Demand deposits	**2,011**	2,011
Issued and outstanding cheques	**(2,267)**	(1,557)
	6,168	6,816

Cash at bank represents cash clearing accounts at various branches which are netted on an overall basis. At December 31, 2018, cash at bank was net of $nil credit balances [2017 – $nil].

9. ACCOUNTS RECEIVABLE

	2018		2017	
	$	Expected Loss %	$	Expected Loss %
Current	**21,839**	***0.1%***	20,200	*0.1%*
Up to 60 days past due	**11,014**	***0.4%***	9,080	*4.7%*
61 – 90 days past due	**452**	***1.5%***	402	*18.3%*
Over 90 days past due	**1,808**	***45.7%***	460	*64.1%*
Trade receivables	**35,113**	***2.5%***	30,142	*3.1%*
Allowance for doubtful accounts[a)]	**(883)**		(929)	
Supplier rebates	**165**		5	
	34,396		29,218	

a) Management recorded new provisions of $291 [2017 – $470] and wrote off $337 [2017 – $542]. The remaining non-cash change in the accounts receivable reflects foreign exchange differences.

10. INVENTORY

	2018	2017
Goods purchased for resale	**62,347**	51,735
Goods in transit	**5,903**	4,234
Manufacturing raw materials	**676**	623
Manufactured finished goods	**1,651**	1,574
Reserve for slow moving inventory[a)]	**(9,914)**	(9,365)
	60,663	48,801

a) Management recorded a provision of $1,386 [2017 – $2,088] and recognized write-offs of $1,151 [2017 – $545]. The remaining non-cash change in inventory provision reflects foreign exchange differences.

December 31, 2018 and 2017 [Cdn$ thousands, unless otherwise noted]

11. PREPAID EXPENSES AND DEPOSITS

	2018	2017
Deposits for commitment to purchase goods	**2,045**	1,820
Deferred costs on maintenance contracts	**973**	—
Deposits for other commitments	**1,222**	915
Rent	**866**	542
Other deposits	**347**	354
	5,453	3,631

12. ACCOUNTS PAYABLE AND ACCRUALS

	2018	2017
Trade payables	**31,450**	24,563
Rebates	**651**	689
Staffing expenses[a)]	**3,874**	3,600
Professional fees	**498**	433
Leases	**956**	906
Sales tax	**563**	647
Deferred revenue on maintenance contracts	**1,187**	—
Other payables	**1,287**	1,004
	40,466	31,842

a) Management bonuses included in staffing expenses have been fully paid subsequent to year end.

Included in Trade payables is $463 [2017 – $565] associated with payables to Vision *[note 18]*.

Included in Due to previous shareholder is a U.S.$788 non-interest bearing demand loan owing to a former shareholder of a previous acquisition.

December 31, 2018 and 2017 [Cdn$ thousands, unless otherwise noted]

13. PLANT AND EQUIPMENT

	Manufacturing Equipment	Moulds	Warehouse & office	Computer equipment	Leaseholds	Total
December 31, 2016						
Carrying value	2,929	4,118	1,330	899	764	10,040
Accumulated Depreciation	(1,637)	(2,853)	(460)	(580)	(601)	(6,131)
Net book value	1,292	1,265	870	319	163	3,909
Additions/Acquisition	203	889	411	88	21	1,612
Fully depreciated assets		(673)	(56)	(85)	(212)	(1,026)
Depreciation	(240)	(578)	(208)	(154)	(157)	(1,337)
Foreign exchange differences	(118)		13		1	(104)
December 31, 2017						
Carrying value	3,014	4,334	1,697	902	574	10,521
Accumulated Depreciation	(1,877)	(2,758)	(611)	(649)	(546)	(6,441)
Net book value	1,137	1,576	1,086	253	28	4,080
Additions/Acquisition	**107**	**754**	**375**	**241**	**592**	**2,069**
Fully depreciated assets	**(116)**	**(728)**	**(104)**	**(105)**	**(187)**	**(1,240)**
Depreciation	**(338)**	**(734)**	**(229)**	**(66)**	**(165)**	**(1,532)**
Foreign exchange differences	**59**	**121**				**180**
December 31, 2018						
Carrying value	**3,064**	**4,481**	**1,968**	**1,038**	**979**	**11,530**
Accumulated Depreciation	**(2,099)**	**(2,764)**	**(736)**	**(610)**	**(524)**	**(6,733)**
Net book value	**965**	**1,717**	**1,232**	**428**	**455**	**4,797**

14. INTANGIBLE ASSETS AND GOODWILL

Intangible assets and Goodwill are not deductible for tax purposes. Trademarks were assessed for impairment by calculating recoverable amounts and comparing them to their respective book values.

Goodwill was 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 12% [2017 – 12%]. For periods beyond the budget period, cash flows were extrapolated using long term average growth rates of 1.0% [2017 – 1.6%]. Reasonably possible changes in key assumptions would not cause the recoverable amount to fall below the carrying value.

December 31, 2018 and 2017 [Cdn$ thousands, unless otherwise noted]

	Customer relationships	Patents	Trade-marks	Computer software	Intangible assets	Goodwill
December 31, 2016						
Carrying value	22,390	4,357	3,698	577	31,022	86,326
Accumulated amortization	(9,487)	(3,689)		(387)	(13,563)	
Net book value	12,903	668	3,698	190	17,459	86,326
Amortization	(1,801)	(111)		(63)	(1,975)	
Fully amortized intangibles		(4,357)			(4,357)	
Foreign exchange differences	(329)	(557)	296	21	(569)	(1,287)
December 31, 2017						
Carrying value	21,543		3,994	598	26,135	83,578
Accumulated amortization	(10,770)			(450)	(11,220)	
Net book value	10,773		3,994	148	14,915	83,578
Amortization	**(1,747)**			**(21)**	**(1,768)**	
Fully amortized intangibles				**(46)**	**(46)**	
Foreign exchange differences	**295**		**329**	**4**	**628**	**3,418**
December 31, 2018						
Carrying value	**22,596**		**4,323**	**556**	**27,475**	**86,996**
Accumulated amortization	**(13,275)**			**(425)**	**(13,700)**	
Net book value	**9,321**		**4,323**	**131**	**13,775**	**86,996**

15. REVOLVING AND TERM DEBT

Richards Packaging has available both revolving and term debt credit facilities. On September 30, 2018, the revolving and term debt credit facilities' maturities were extended to September 30, 2021 at a cost of $65 [2017 – $102]. The revolving credit facility availability of $5,000 [2017 – $5,000], which was undrawn at December 31, 2018, bears interest at the prime rate plus a premium of 0.2% to 0.8%. The term facility of $27,500 [2017 – $33,500] bears interest at the bankers' acceptance borrowing rate plus a premium of 1.15% to 1.8%. The effective interest rate at December 31, 2018 was 3.0 % [2017 – 2.3%]. Voluntary repayments of term debt of $6,000 [2017 – $8,500] were made during the year ended December 31, 2018.

December 31, 2018 and 2017 [Cdn$ thousands, unless otherwise noted]

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

	2018	2017
Interest expense	**899**	838
Credit card fees	**1,062**	1,089
Bank and intercompany refinancing fees	**87**	139
Credit facility charges	**275**	240
	2,323	2,306

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, 2016	10,846,578	10,846,578	846,435	11,693,013	11,693,013
Share conversion	46,787		(46,787)		
December 31, 2017	10,893,365	10,875,082	799,648	11,693,013	11,693,013
December 31, 2018	**10,893,365**	**10,893,365**	**799,648**	**11,693,013**	**11,693,013**

Exchangeable shares mark-to-market loss reflects a unit price increase during the year ended December 31, 2018 of $3.83 [2017 – $6.38] to $35.00 per Unit. The impact on income per Unit of the mark-to-market loss and distributions to exchangeable shareholders is anti-dilutive which reverts back to basic income per Unit [2017 – anti-dilutive].

Fund Units

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

The Fund initiated a normal course issuer bid on March 14, 2018 to purchase up to 200,000 Units prior to March 13, 2019. There were no purchases during the year. During 2017, 46,787 exchangeable shares were converted to Units at an average cost of $26.64/Unit.

Contributed surplus

The components of Unitholders' capital include unit capital and contributed surplus. The conversion in 2017 of 46,787 exchangeable shares resulted in a $840 increase.

Exchangeable shares

Exchangeable shares were issued by Richards Packaging to officers on the initial public offering and in connection with two business acquisitions. The exchangeable shares issued by Holdings and Richards Packaging Holdings (US) Inc. are redeemable and are retractable by the shareholders at any time. A retraction or redemption of exchangeable shares will be paid in Units on a one-for-one basis. The Fund has the option to settle the redemption of exchangeable shares issued by Richards Packaging Holdings (US) Inc. in cash. 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 14^{th} day of the following month. Distributions in 2018 were $1,198, or 11¢ per Unit.

Distributions paid to exchangeable shareholders are not subordinated to distributions to Unitholders and are declared on the same basis net of applicable taxes. Distributions are made monthly to shareholders of record on the last business day of each month and paid on or about the 14^{th} day of the following month.

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, 2018 was 0.57 [2017 – 0.80]. In addition, the fixed charge coverage ratio covenant was greater than 2.0 times and the ratio was 4.48 [2017 – 4.43] and the minimum net worth covenant was $70,000 and the net worth was $137,147 [2017 – $116,451].

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

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

December 31, 2018 and 2017 [Cdn$ thousands, unless otherwise noted]

	2018	2017
Leases of facilities from entities related to certain officers	**964**	928
Product purchases from Vision	**6,790**	6,435

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

	2018	2017		2018	2017
Statement of financial position					
Assets			**Liabilities**		
Current assets	**1,400**	1,311	Current liabilities	**547**	431
Plant and equipment	**599**	609			
Total assets	**1,999**	1,920	**Net assets**	**1,452**	1,489
Statement of net income					
Revenue				**6,790**	6,435
Expenses				**6,788**	6,422
Net income				**2**	13

The decrease of $19 [2017 – $5 increase] in Investment – Vision represents share of net income of $1 [2017 – $5] reduced by dividends declared of $20 [2017 – $0].

19. FINANCIAL INSTRUMENTS

Fair value

Cash, accounts receivable, accounts payable and accruals, distributions payable and due to previous shareholder are all short-term in nature and, as such, 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 16]*.

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, 2018, 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 allowance for doubtful accounts is reviewed by management. The allowance for doubtful accounts as at December 31, 2018 is sufficient to cover impaired accounts *[note 9]*.

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, 2018 is sufficient to cover losses due to inventory obsolescence *[note 10]*.

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 12, 20]*. This is achieved through a combination of cash balances *[note 8]*, availability of credit facilities *[note 16]*, 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 $226.

Foreign currency risk

Exposure to U.S./Cdn. currency fluctuations arises on cross-border transactions and on the translation of cash flows of Richards Packaging US. A foreign currency loss of $191 has been recorded for the year ended December 31, 2018 [2017 – $115 gain] relating to cross-border transactions. A 1.0% movement in foreign currency rates would have impacted net income by $230.

20. COMMITMENTS AND CONTINGENCIES

The minimum rental payments, exclusive of occupancy charges, required under the operating leases for premises are as follows:

December 31, 2018 and 2017 [Cdn$ thousands, unless otherwise noted]

	Related parties	Third parties	Total
2019	**1,045**	**5,932**	**6,977**
2020	**1,058**	**4,534**	**5,592**
2021	**223**	**3,899**	**4,122**
2022	**56**	**3,008**	**3,064**
2023	**—**	**2,423**	**2,423**
Thereafter	**—**	**2,113**	**2,113**
	2,382	**21,909**	**24,291**

These amounts exclude $7,827 in payments that would be made if optional lease terms were renewed. In the ordinary course of business, Richards Packaging is involved in litigation and other claims. It is management's opinion that the ultimate outcome of these matters will not have a material adverse effect on the financial position or operating results.

21. ADDITIONAL CASH FLOW INFORMATION

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

	2018	2017
Accounts receivable	**(3,851)**	2,510
Inventory	**(8,870)**	(2,957)
Prepaid expenses and deposits	**(1,617)**	(591)
Accounts payable and accruals	**7,393**	3,105
	(6,945)	2,067

For the year ended December 31, 2018, the foreign exchange translation gain excluded from the above was $3,293 [2017 – $2,360 loss].