

# ***Q1* QUARTERLY REPORT**

## **Richards Packaging Income Fund**

Quarter ended March 31, 2019

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

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

*March 31, 2019*

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

The IFRS 16 new lease accounting policy was implemented effective January 1<sup>st</sup> with the impact outlined in the notes to the financial statements. After discussions with our bank we also modified the definition of adjusted EBITDA and distributable cash flow to reverse the effects of these changes as outlined in the MD&A.

First quarter performance exceeded our 2018 outlook as total revenue was up 9.8% on 5.6% organic revenue growth and 4.2% currency translation as the dollar weakening by U.S./Cdn. 3.8¢ to 75¢. Adjusted EBITDA<sup>1</sup> was up \$0.9 million, or 8.5% at 14.4% of sales, mainly due to higher organic revenue growth in our healthcare segment. Net income was down \$1.5 million, or 14.1¢ per Unit, mainly due to a \$1.7 million loss on the \$2.81 per share mark-to-market exchangeable share increase.

The \$3.4 million of free cash flow<sup>2</sup> generated in the first quarter and the \$6.2 million cash on hand was utilized to settle the \$1.2 million of 2018 taxes owing, repay \$1.0 million in debt and to pay down \$6.6 million of accounts payable. The Fund's leverage at 0.5x is down 0.1x from the level at December 31, 2018.

The Fund paid monthly capital dividends of 11¢ per Unit, which represented an annualized yield of 3.5% on the March 31<sup>st</sup> closing price of \$37.81 per Unit. The payout ratio<sup>3</sup> for the first quarter was 52% reflecting the higher Adjusted EBITDA.

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

*"Gerry Glynn"*  
Chief Executive Officer  
Richards Packaging Inc.  
6095 Ordan Drive  
Mississauga, Ontario  
L4T 2M7

April 29, 2019

## Richards Packaging Income Fund

### MANAGEMENT'S DISCUSSION AND ANALYSIS

April 29, 2019

This management's discussion and analysis ("MD&A") of Richards Packaging Income Fund for the first quarter should be read in conjunction with the attached condensed interim financial statements dated March 31, 2019, the 2018 Annual Report and the 2018 Annual Information Form dated March 6, 2019, respectively. Results are reported in Canadian dollars and have been prepared in accordance with International Financial Reporting Standards ("IFRS") on a consistent basis with the 2018 annual financial statements, except for as disclosed in New Accounting Policy.

#### Description of the Business

Richards Packaging serves a wide customer base that is comprised of approximately 14,200 regional food, beverage, cosmetic, healthcare and other companies. The primary source of revenue is from the distribution of over 5,800 different types of packaging components sourced from over 850 suppliers and its three dedicated manufacturing facilities. Sales from these manufacturing facilities represent approximately 9% of the total revenues of Richards Packaging (2018 10%).

#### Financial Highlights

This MD&A covers the three months ended March 31, 2019 (generally referred to in this MD&A as the "first quarter"). The following table sets out selected consolidated financial information:

| (\$ thousands)                        | Qtr. 1  |         |  |
|---------------------------------------|---------|---------|--|
|                                       | 2019    | 2018    |  |
| <b>Income Statement Data:</b>         |         |         |  |
| Revenue .....                         | 81,899  | 74,587  | • Revenue up \$7.3 mil., or 9.8%, due to \$4.1 mil. organic growth, or 5.6%, in addition to \$3.2 mil. from currency translation due to a 3.8¢ U.S./Cdn. decrease to 75¢,                                      |
| Net income .....                      | 4,560   | 6,105   | • Adjusted EBITDA <sup>1</sup> up \$0.9 mil., or 8.5%, at 14.4% of sales, on higher revenue,   |
| Diluted per Unit .....                | 41.9¢   | 56.0¢   | • Current income taxes were up \$0.3 mil. on higher taxable income,  |
| <b>Financial Position Data:</b>       |         |         |  |
| Assets .....                          | 239,121 | 191,915 | • Net income decreased \$1.5 mil. or 14.1¢ per Unit due primarily to the mark-to-market loss on exchangeable shares,   |
| Long-term financial liabilities ..... | 54,041  | 32,460  | • Non-cash working capital increased \$5.8 mil. mainly due to \$6.6 mil. payables decrease as the \$3.3 mil. receivable increase was offset by a decrease in inventory (\$3.3 mil.) and prepaids (\$0.8 mil.), |
| Leverage .....                        | 0.5     | 0.8     |  |
| <b>Cash Flow Statement Data:</b>      |         |         |  |
| Distributions .....                   | 3,894   | 3,887   |  |
| Diluted per Unit .....                | 33.4¢   | 33.3¢   |  |
| Payout ratio <sup>3</sup> .....       | 52%     | 53%     |  |
| Debt repayments .....                 | 1,000   | 1,000   |  |

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

b) anti-dilutive results revert to basic income per Unit

- Assets increased by \$30.1 mil. and long-term financial liabilities increased by \$27.6 mil. to reflect the new accounting policy for leases,
- Free cash flow<sup>2</sup> of \$3.4 mil. and \$6.2 mil. cash on hand at Dec. 31, 2018 utilized to pay \$1.2 mil. income taxes owing, repay \$1.0 mil. in debt and pay payables. Cash of \$3.0 mil. on March 31<sup>st</sup> will be required to settle taxes payable of \$1.3 mil. and fund future growth,



## Richards Packaging Income Fund

### MANAGEMENT'S DISCUSSION AND ANALYSIS

April 29, 2019

| (\$ thousands)                            | Qtr. 1        |        |
|---|---------------|--------|
|   | 2019          | 2018   |
| <b>Revenue</b> .....                      | <b>81,899</b> | 74,587 |
| Cost of products sold.....                | <b>65,705</b> | 59,260 |
| Lease expense.....                        | <b>1,456</b>  | 1,470  |
| Gross profit.....                         | <b>14,738</b> | 13,857 |
|   | 18.0%         | 18.6%  |
| Administrative expenses.....              | <b>3,024</b>  | 2,990  |
| Foreign currency loss (gain).....         | <b>(42)</b>   | 35     |
| <b>Adjusted EBITDA</b> <sup>1</sup> ..... | <b>11,756</b> | 10,832 |
|   | 14.4%         | 14.5%  |
| Amortization.....                         | <b>860</b>    | 782    |
| Exceptional items.....                    | <b>250</b>    | —      |
| Financial expenses.....                   | <b>772</b>    | 545    |
| Exchangeable shares.....                  | <b>2,547</b>  | 869    |
| Share of income - Vision.....             | <b>9</b>      | 14     |
| Income tax expense.....                   | <b>2,758</b>  | 2,517  |
| <b>Net Income</b> .....                   | <b>4,560</b>  | 6,105  |

Cost of products sold (before amortization and lease expense) increased by \$6.4 million, or 10.9%, for the first quarter, with the business performing at a 18.0% gross profit margin, down 0.6% mainly due to the adverse product mix shift on lower cosmetic growth. The volatility in the price of resins did not have a material impact on margins as a result of management's practice of passing through increases and decreases to customers.

Lease expense represents a reallocation out of amortization, for the depreciation of leases required to be characterized as finance leases under the new IFRS 16 adopted January 1, 2019, and is flat against lease expense for the same period in 2018 accounted for as operating leases under IAS 17.

Administrative expenses (before amortization) for the first quarter were similar to the same period in 2018.

The foreign currency loss (gain) from operations resulted from exchange rate changes applied to our U.S. dollar denominated working capital position within our Canadian operations. The net liability position decreased in the first quarter leading to the gain as the Canadian dollar strengthened by 1.5¢ from year end to 74.8¢ U.S./Cdn.

Adjusted EBITDA<sup>1</sup> for the first quarter increased by \$0.9 million, or 8.5%, from the same period in 2018. As a percent of sales, Adjusted EBITDA was at 14.4% for the first quarter, similar to the same period in 2018. The impact of translation was an increase of \$0.6 million due to weaker Canadian dollar and higher earnings at Richards US.

Amortization (excluding leases) of \$0.9 million for the first quarter was mainly comprised of \$0.5 million intangible assets amortization, which represents a charge for customer relationships and depreciation for capital assets of \$0.4 million, which annualized, is approximately equal to the annual maintenance capital expenditure requirement.

Exceptional items include professional fees associated with our reorganization.

Financial expenses were higher for the first quarter by \$0.2 million compared to the same period in 2018 due to interest on leases with the adoption of IFRS 16.

## Richards Packaging Income Fund

### MANAGEMENT'S DISCUSSION AND ANALYSIS

April 29, 2019

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Exchangeable shares mark-to-market loss reflects a unit price increase during the first quarter of \$2.81 to \$37.81 per Unit. Exchangeable share monthly distributions were 11¢ per share in the first quarter.

Income tax expense increased \$0.2 million for the first quarter compared to the same period in 2018 on higher taxable income.

Net income for the first quarter was \$4.6 million, which represented 42¢ per Unit on a diluted basis, down 14¢ or 25.3% over the same period in 2018.

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

The distributable cash flow<sup>2</sup> definition excludes changes in working capital and capital expenditures for the expansion of the business, as they are necessary to drive organic growth and are expected to be financed by either a \$5.0 million revolving facility currently undrawn (2018 – nil drawn) or free cash flow<sup>2</sup>.

| (\$ thousands)                                   | Qtr. 1        |              |
|--|---------------|--------------|
|  | 2019          | 2018         |
| Cash provided by operating activities            | 4,428         | 3,109        |
| Lease expense.....                               | (1,456)       | —            |
| Working capital changes.....                     | 5,759         | 3,795        |
| Income tax payments.....                         | 2,775         | 3,928        |
| <b>Adjusted EBITDA<sup>1</sup></b>               | <b>11,506</b> | 10,832       |
| Interest (excluding leases).....                 | 570           | 545          |
| Current income tax.....                          | 2,905         | 2,654        |
| Maintenance capital.....                         | 501           | 292          |
| <b>Distributable cash flow<sup>2</sup></b> ..... | <b>7,530</b>  | 7,341        |
| <i>Diluted per Unit</i> .....                    | <i>64.4¢</i>  | <i>62.8¢</i> |
| <b>Distributions</b> .....                       | <b>3,894</b>  | 3,887        |
| <i>Diluted per Unit</i> .....                    | <i>33.4¢</i>  | <i>33.3¢</i> |
| <i>Payout ratio<sup>3</sup></i> .....            | <i>52%</i>    | <i>53%</i>   |
| <b>Free cash flow<sup>2</sup></b> .....          | <b>3,635</b>  | 3,454        |
| <b>Units outstanding (average)</b>               |               |              |
| <i>Diluted basis 000's</i> .....                 | <b>11,693</b> | 11,693       |

Distributable cash flow<sup>2</sup> for the first quarter was \$0.2 mil. higher as the increase in Adjusted EBITDA<sup>1</sup> was partially offset by higher current income taxes and maintenance capital.

Free cash flow<sup>2</sup> of \$3.6 mil. and \$6.2 mil. cash on hand at Dec. 31, 2018 was utilized to pay \$1.2 mil. in income taxes owing, repay \$1.0 mil. in debt and pay \$6.6 mil. in payables. Cash of \$3.0 mil. on March 31<sup>st</sup> will be required to settle taxes payable of \$1.3 mil. and fund future growth.

Monthly distributions paid of 11¢ per Unit represent a payout ratio<sup>3</sup> of 52% and an annual yield of 3.5% on a \$37.81 price per Unit at March 31, 2019. Distributions have been characterized 69% as capital dividends and 31% return of capital.

#### Liquidity and Financing

##### Cash flows from operating activities

Cash flow from operating activities for the first quarter was up \$1.3 million over the same period in 2018, mainly due to the recharacterization of operating leases included in 2018. In addition, during the first quarter, working capital increased by \$5.8 million on lower payables of \$6.6 million offset by lower prepaids of \$0.8 million with higher receivables of \$3.3 million fully offset by lower

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

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

*April 29, 2019*

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inventory. Distributions exceeded cash flow from operations during the first quarter of 2018 due to a \$2.2 million taxes paid on intercompany refinancing that cash had been set aside for at the end of the 2017 year. Income tax payments were \$1.1 million lower as the 2018 refinancing was lower than 2017.

The financial structure of the Fund allows for maximum distributions of cash flow from operations to the Unitholders and Exchangeable Shareholders as outlined above in the distributable cash discussion. Actual distributions paid during the first quarter were \$3.9 million, including those declared for December 2018, with \$1.3 million declared for March, which was paid April 12<sup>th</sup>.

#### ***Normal Course Issuer Bid***

On March 14, 2019, the Fund renewed the normal course issuer bid to purchase up to 500,000 Units prior to March 13, 2020. No units were purchased during the first quarter (2018 nil).

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

The current income tax expense for the first quarter was \$2.9 million, which reflects the higher taxable income.

#### ***Capital expenditures***

Maintenance capital expenditures for the first quarter were \$0.5 million (2018 \$0.3 million) mainly comprised of \$0.2 million refurbishment of molds for replacement packaging and \$0.2 million warehouse and \$0.1 million computer equipment upgrades. Expansion capital expenditures for the first quarter were nil (2018 \$nil).

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

Credit facilities include a \$26.5 million term loan (2018 \$32.5 million) with maturity on September 30, 2021 and up to \$5.0 million in revolving debt to fund working capital expansion. The term loan facility bears interest at BA's plus a premium of 1.15% to 1.80% or at a prime rate plus a premium of 0.15% to 0.80%. During the first quarter, \$1.0 million was repaid (2018 \$1.0 million).

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<sup>1</sup>. As at March 31, 2019, our leverage ratio was 0.5 times (2018 0.8 times). Combined with cash flow from operations, management believes that adequate financing will be available for the foreseeable future<sup>4</sup>.

#### ***Outlook Sensitivities<sup>4</sup>***

Management believes that the performance of Richards Packaging is on track to meet ongoing requirements for working capital, capital expenditures and to sustain monthly distributions to Unitholders at the current level through 2019 until there is further clarity on the status of China tariffs.

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

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

*April 29, 2019*

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For the second quarter of 2019, exchange translation at the current exchange rate of U.S./Cdn. 74¢ has weakened 3¢ over the same period in 2018. The sensitivity for every 1¢ movement in exchange rates to revenue is \$0.5 million and to Adjusted EBITDA<sup>1</sup> is \$0.05 million.

Maintenance capital will continue to be funded by cash flow from operations at \$0.3 million per quarter with the additional \$1.0 million set aside for an IT system upgrade in the third quarter.

Distributable cash flow<sup>2</sup> from Richards Packaging US and the current tax profile Richards Canada are expected to allow for return of capital to Unitholders. Distributable cash flow sensitivity to foreign currency fluctuations is \$0.03 million for every U.S./Cdn. 1¢ movement. For 2019, surplus distributable cash is expected to be deployed to pay down debt, purchase units opportunistically under the normal course issuer bid and/or fund acquisitions.

#### **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 distribution 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 2018 Annual Information Form dated March 6, 2019. To management's knowledge, no significant changes to these risks and uncertainties have occurred in the first quarter of 2019.

#### **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 March 31, 2019 and revenue and expenses for the period then ended. There have not been any significant changes in the critical accounting estimates of the Fund in the first quarter of 2019, relative to December 31, 2018 except for those associated with the implementation of lease accounting outlined below. 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 2018 Annual Report.

#### **New Accounting Policy**

The Fund adopted IFRS 16, *Leases* for the annual period beginning on January 1, 2019 which required us to capitalize and amortize the fair value of most operating leases over the term of the leases. The impact of the adoption of this standard was an increase to long-term assets by \$29 million, long-term liabilities by \$26 million and accounts payable and accruals by \$5 million on the statements of financial position. Assets associated with lease contracts cannot be used as security for term borrowings.

## **Richards Packaging Income Fund**

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

April 29, 2019

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#### **Disclosure Controls and Internal Controls over Financial Reporting**

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

#### **Cautionary Statement**

Additional information relating to the Fund is available on Richards Packaging's website at [www.richardspackaging.com](http://www.richardspackaging.com), SEDAR at [www.sedar.com](http://www.sedar.com) or TSX at [www.tmx.com](http://www.tmx.com)

- 1 Management defines Adjusted EBITDA as net income before non-lease amortization, 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 4. Our lenders use this measure as a starting point in the determination of earnings available for distribution to Unitholders and exchangeable shareholders. In addition, Adjusted EBITDA and Adjusted EBITDA as a percentage of sales are intended to provide additional information on the operating performance. This earnings measure should not be construed as an alternative to net income or as an alternative to cash flows from operating, investing and financing activities as a measure of liquidity and cash flows. Adjusted EBITDA does not have a standardized meaning prescribed by IFRS and therefore the method of calculating Adjusted EBITDA may not be comparable to similar measures presented by other companies.*
- 2 Management defines distributable cash flow, in accordance with Richards Packaging's credit agreement, as Adjusted EBITDA less non-lease interest, cash income tax expense, maintenance capital expenditures plus dividends from equity investments. The reconciliation to cash flow from operations can be found on page 5. Free cash flow is distributable cash flow less distributions. The objective of presenting this measure is to calculate the amount which is available for distribution to Unitholders or exchangeable shareholders and to determine the amount available to fund increases in working capital or expansion capital. Investors are cautioned that distributable cash flow should not be construed as an alternative to cash flow from operating, investing and financing activities as a measure of liquidity and cash flows. Distributable cash flow does not have a standardized meaning prescribed by IFRS and therefore the method of calculating distributable cash flow may not be comparable to similar measures presented by other companies.*
- 3 Management defines payout ratio as distributions declared over distributable cash flow<sup>2</sup>. The 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*

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

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

*April 29, 2019*

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*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, changes to applicable tax 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](http://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 months ended March 31*

*[Consolidated]*

| <i>Cdn\$ thousands</i>   | <b>Notes</b> | <b>2019</b>    | <b>2018</b> |
|--|--------------|----------------|-------------|
| <b>Revenue</b>   | 3            | <b>81,899</b>  | 74,587      |
| Cost of sales  | 2            | <b>67,984</b>  | 61,492      |
| Administrative expenses  | 2            | <b>3,311</b>   | 3,010       |
| Foreign currency loss (gain)   |              | <b>(42)</b>    | 35          |
| <b>Profit from operations</b>  |              | <b>10,646</b>  | 10,050      |
| Financial expenses   | 2            | <b>772</b>     | 545         |
| Exchangeable shares  |              |                |             |
| Mark-to-market loss  |              | <b>2,247</b>   | 576         |
| Distributions  |              | <b>300</b>     | 293         |
| Share of income - Vision   |              | <b>9</b>       | 14          |
| <b>Profit before income taxes</b>  |              | <b>7,318</b>   | 8,622       |
| Income tax expense (income)  |              |                |             |
| Current taxes  | 4            | <b>2,905</b>   | 2,654       |
| Deferred taxes   | 2,4          | <b>(147)</b>   | (137)       |
|  |              | <b>2,758</b>   | 2,517       |
| <b>Net income for the period</b>   |              | <b>4,560</b>   | 6,105       |
| Basic and diluted income per Unit  | 5            | <b>41.9¢</b>   | 56.0¢       |
| <b>Other comprehensive income (loss)</b><br><i>(subsequently recyclable to Net income)</i> |              |                |             |
| Currency translation adjustment - Richards Packaging US                                    | 2            | <b>(2,079)</b> | 2,495       |
| <b>Comprehensive income for the period</b>   |              | <b>2,481</b>   | 8,600       |

*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 March 31 and December 31*

*[Consolidated]*

| <i>Cdn\$ thousands</i>                 | <b>Notes</b> | <b>Mar. 31</b> |                | <b>Dec. 31</b> |                |
|--|--------------|----------------|----------------|----------------|----------------|
|  |              | <b>2019</b>    | <b>2018</b>    | <b>2018</b>    | <b>2017</b>    |
| <b>ASSETS</b>                          |              |                |                |                |                |
| <b>Current Assets</b>                  |              |                |                |                |                |
| Cash and cash equivalents              |              | <b>3,015</b>   | 4,443          | <b>6,168</b>   | 6,816          |
| Accounts receivable                    | 2            | <b>37,493</b>  | 31,948         | <b>34,395</b>  | 29,218         |
| Inventory                              |              | <b>56,605</b>  | 47,908         | <b>60,663</b>  | 48,801         |
| Prepaid expenses and deposits          |              | <b>4,595</b>   | 3,437          | <b>5,453</b>   | 3,631          |
|  |              | <b>101,708</b> | 87,736         | <b>106,679</b> | 88,466         |
| <b>Long-term Assets</b>                |              |                |                |                |                |
| Property, plant and equipment          | 2            | <b>34,887</b>  | 4,099          | <b>4,797</b>   | 4,080          |
| Leases receivable                      | 2            | <b>2,509</b>   | —              | —              | —              |
| Investment - Vision                    |              | <b>717</b>     | 731            | <b>726</b>     | 745            |
| Intangible assets                      |              | <b>13,172</b>  | 14,683         | <b>13,775</b>  | 14,915         |
| Goodwill                               |              | <b>86,127</b>  | 84,666         | <b>86,996</b>  | 83,578         |
|  |              | <b>137,412</b> | 104,179        | <b>106,294</b> | 103,318        |
|  |              | <b>239,121</b> | <b>191,915</b> | <b>212,973</b> | <b>191,784</b> |
| <b>LIABILITIES &amp; EQUITY</b>        |              |                |                |                |                |
| <b>Current Liabilities</b>             |              |                |                |                |                |
| Accounts payable and accruals          | 2            | <b>37,958</b>  | 28,685         | <b>40,466</b>  | 31,842         |
| Income tax payable                     | 4            | <b>1,319</b>   | 1,763          | <b>1,189</b>   | 3,037          |
| Distributions payable                  |              | <b>1,299</b>   | 1,297          | <b>1,300</b>   | 1,296          |
| Due to previous shareholder            |              | <b>1,053</b>   | 1,016          | <b>1,075</b>   | 989            |
| Exchangeable shares                    | 5            | <b>30,147</b>  | 25,413         | <b>27,900</b>  | 24,837         |
|  |              | <b>71,776</b>  | 58,174         | <b>71,930</b>  | 62,001         |
| <b>Long-term Liabilities</b>           |              |                |                |                |                |
| Term debt                              |              | <b>26,446</b>  | 32,460         | <b>27,441</b>  | 33,440         |
| Lease obligations                      | 2            | <b>27,595</b>  | —              | —              | —              |
| Deferred income taxes                  | 2,4          | <b>4,245</b>   | 4,393          | <b>4,354</b>   | 4,461          |
|  |              | <b>58,286</b>  | 36,853         | <b>31,795</b>  | 37,901         |
| <b>Equity</b>                          |              |                |                |                |                |
| Unitholders' capital                   | 5            | <b>13,595</b>  | 23,049         | <b>14,710</b>  | 23,049         |
| Retained earnings                      | 2            | <b>80,544</b>  | 62,025         | <b>77,598</b>  | 59,514         |
| Accumulated other comprehensive income | 2            | <b>14,920</b>  | 11,814         | <b>16,940</b>  | 9,319          |
|  |              | <b>109,059</b> | 96,888         | <b>109,248</b> | 91,882         |
|  |              | <b>239,121</b> | <b>191,915</b> | <b>212,973</b> | <b>191,784</b> |

*See accompanying notes*

***Richards Packaging Income Fund***

**STATEMENTS OF CHANGES IN EQUITY**

*Unaudited*

*For the three months ended March 31*

*[Consolidated]*

| <i>Cdn\$ thousands</i>       | <b>Notes</b> | <b>Unitholders'<br/>capital</b> | <b>Retained<br/>earnings</b> | <b>AOCI<sup>a)</sup></b> | <b>Equity</b>  |
|------------------------------|--------------|---------------------------------|------------------------------|--------------------------|----------------|
| <b>December 31, 2017</b>     |              | 23,049                          | 59,514                       | 9,319                    | 91,882         |
| Comprehensive income         |              |                                 | 6,105                        | 2,495                    | 8,600          |
| Distributions                |              |                                 | (3,594)                      |                          | (3,594)        |
| <b>March 31, 2018</b>        |              | 23,049                          | 62,025                       | 11,814                   | 96,888         |
| <hr/>                        |              |                                 |                              |                          |                |
| <b>December 31, 2018</b>     |              | <b>14,710</b>                   | <b>77,598</b>                | <b>16,940</b>            | <b>109,248</b> |
| IFRS 16 adjustment           | 2            |                                 | 865                          |                          | 865            |
| <b>January 1, 2019</b>       |              | <b>14,710</b>                   | <b>78,463</b>                | <b>16,940</b>            | <b>110,113</b> |
| Comprehensive income (loss)  |              |                                 | 4,560                        | (2,079)                  | 2,481          |
| Distributions <sup>(b)</sup> |              | (1,115)                         | (2,479)                      |                          | (3,594)        |
| <b>March 31, 2019</b>        |              | <b>13,595</b>                   | <b>80,544</b>                | <b>14,861</b>            | <b>109,000</b> |

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***

**STATEMENTS OF CASH FLOWS**

*Unaudited*

*For the three months ended March 31*

*[Consolidated]*

|   |     |                |         |
|---|-----|----------------|---------|
| <b>OPERATING ACTIVITIES</b>                     |     |                |         |
| Profit from operations                          | 2   | <b>10,646</b>  | 10,050  |
| Add items not involving cash                    |     |                |         |
| Plant, equipment and lease depreciation         | 2   | <b>1,867</b>   | 321     |
| Intangible assets amortization                  |     | <b>449</b>     | 461     |
| Income taxes payments                           | 4   | <b>(2,775)</b> | (3,928) |
| Changes in non-cash working capital             | 2,6 | <b>(5,759)</b> | (3,795) |
| <b>Cash provided by operating activities</b>    |     | <b>4,428</b>   | 3,109   |
| <b>INVESTING ACTIVITIES</b>                     |     |                |         |
| Additions to plant and equipment                |     | <b>(501)</b>   | (292)   |
| <b>Cash used in investing activities</b>        |     | <b>(501)</b>   | (292)   |
| <b>FINANCING ACTIVITIES</b>                     |     |                |         |
| Repayment of term debt                          |     | <b>(1,000)</b> | (1,000) |
| Lease obligation payments                       | 2   | <b>(1,237)</b> | —       |
| Financial expenses paid                         | 2   | <b>(766)</b>   | (546)   |
| Distributions paid to Exchangeable Shareholders |     | <b>(301)</b>   | (293)   |
| Distributions paid to Unitholders               |     | <b>(3,595)</b> | (3,595) |
| <b>Cash used in financing activities</b>        |     | <b>(6,898)</b> | (5,434) |
| <b>Net cash flow for the period</b>             |     | <b>(2,971)</b> | (2,617) |
| Cash, beginning of period                       |     | <b>6,168</b>   | 6,816   |
| Foreign exchange effect                         |     | <b>(182)</b>   | 244     |
| <b>Cash, end of period</b>                      |     | <b>3,015</b>   | 4,443   |

*See accompanying notes*

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

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

*Unaudited*

*March 31, 2019*

*[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 2018 audited annual financial statements. The accounting policies used in the preparation of these condensed interim financial statements are consistent with the 2018 audited annual financial statements except as described in Note 2.

#### **2. NEW ACCOUNTING POLICY**

IFRS 16, *Leases*, was adopted on January 1, 2019, for real estate and equipment operating leases, on a modified retrospective basis. Formerly the policy under IAS 17 was to expense rental payments and lease inducements on a straight-line basis over the life of the leases and to disclose future obligations excluding renewal options in a commitment note. Therefore, on January 1, 2019 we reversed \$954 of accounts payable and accruals less the deferred taxes of \$91 to increase retained earnings by \$865. The new policy requires that these leases now be treated as finance leases which requires that the present value of lease payments be recognized utilizing Richards’ incremental borrowing rate of 4% as the discount rate. Therefore, on January 1, 2019 we recognized \$28,701 of Property and equipment, \$2,863 of lease receivable and \$31,564 of lease obligations. Lease payments reduce lease obligations after adjusting for implied financial expenses (\$328) calculated utilizing the effective interest method. Lease terms include extension options as management is reasonably certain to exercise them in due course and exclude any residual value. There are no onerous or low value leases and initial direct costs have been excluded. Short term leases (\$296) continue to be treated as operating in nature. The calculations to reflect the adoption of IFRS 16 for lease obligations are outlined below:

|  |               |
|--|---------------|
| <b>Operating lease commitments disclosed as at December 31, 2018</b> | <b>24,291</b> |
| <b>Lease extension options</b>                                       | <b>12,660</b> |
| Discount using incremental borrowing rate                            | (5,387)       |
| Short-term leases  | (270)         |
| <b>Lease liability as at January 1, 2019</b>                         | <b>31,564</b> |
| Accounts payable and accruals  | 5,280         |
| Long-term lease obligations  | 26,284        |
| Lease additions  | 3,184         |
| Currency translation adjustment                                      | (441)         |
| Lease obligation payments  | (1,347)       |
| <b>Lease liability as at March 31, 2019</b>                          | <b>32,961</b> |
| Accounts payable and accruals  | 5,366         |
| Long-term lease obligations  | 27,595        |

***Richards Packaging Income Fund***

**NOTES TO INTERIM FINANCIAL STATEMENTS**

*Unaudited*

*March 31, 2019*

*[Cdn\$ thousands]*

Property and equipment are depreciated on a straight-line basis over the expected terms of the leases. The calculations to reflect the adoption of IFRS 16 for property, plant and equipment leases are outlined below:

|   |               |
|---|---------------|
| <b>Property and equipment leases recognized as at January 1, 2019</b> | <b>28,701</b> |
| Property leases   | 28,333        |
| Computer equipment  | 11            |
| Warehouse and office  | 356           |
| <hr/>   |               |
| Additions   | 3,184         |
| Currency translation adjustment                                       | (383)         |
| Depreciation  | (1,452)       |
| <hr/>   |               |
| <b>Property, equipment and leases as at March 31, 2019</b>            | <b>30,050</b> |
| Property leases   | 29,700        |
| Computer equipment  | 14            |
| Warehouse and office  | 336           |

The commitments disclosed at December 31, 2018 were net of the sublease income. The present value of rent receivable from the subleases is reflected as leases receivable with the associated financial income calculated utilizing the actuarial method at a 18% implied rate (\$126). The calculations to reflect the adoption of IFRS 16 for subleases are outlined below:

|  |              |
|--|--------------|
| <b>Sublease income disclosed as at December 31, 2018</b> | <b>4,833</b> |
| Discount using the implicit lease rate                   | (1,970)      |
| <hr/>  |              |
| <b>Lease receivable recognized as at January 1, 2019</b> | <b>2,863</b> |
| Accounts receivable                                      | 233          |
| Leases receivable  | 2,630        |
| <hr/>  |              |
| Sublease receipts net of financial income                | (110)        |
| <hr/>  |              |
| <b>Lease receivable recognized as at March 31, 2019</b>  | <b>2,753</b> |
| Accounts receivable                                      | 244          |
| Leases receivable  | 2,509        |

The impact for the three months ended March 31, 2019 on deferred taxes was a \$35 increase and on retained earnings a \$125 decrease.

*Richards Packaging Income Fund*

**NOTES TO INTERIM FINANCIAL STATEMENTS**

*Unaudited*

March 31, 2019

[Cdn\$ thousands]

**3. REVENUE & SEGMENTED INFORMATION**

|                             | <b>2019</b>   | <b>2018</b> |
|-----------------------------|---------------|-------------|
| <b>Revenue by geography</b> |               |             |
| Canada                      | <b>33,908</b> | 32,964      |
| US                          | <b>47,991</b> | 41,623      |
|                             | <b>81,899</b> | 74,587      |
| <b>Revenue by end user</b>  |               |             |
| Cosmetics                   | <b>23,561</b> | 21,634      |
| Healthcare                  | <b>18,918</b> | 16,404      |
| Food, beverage & other      | <b>39,420</b> | 36,549      |
|                             | <b>81,899</b> | 74,587      |

**4. INCOME TAXES**

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

|  | <b>Notes</b> | <b>2019</b>  | <b>2018</b>  |
|--|--------------|--------------|--------------|
| Profit from operations                       | 2            | 10,646       | 10,050       |
| Financial expenses                           | 2            | (772)        | (545)        |
| <b>Income subject to income taxes</b>        |              | <b>9,874</b> | <b>9,505</b> |
| Statutory tax rate                           |              | 26.8%        | 26.9%        |
| Income tax expense at statutory tax rate     |              | <b>2,646</b> | 2,557        |
| <b>Deferred income tax</b>                   | 2            | <b>147</b>   | 137          |
| Current period adjustments                   |              |              |              |
| Refinancing Intercompany notes <sup>a)</sup> |              | <b>(48)</b>  | <b>(48)</b>  |
| Financial expenses - leases                  | 2            | <b>54</b>    | —            |
| Foreign rate differential                    |              | <b>60</b>    | (34)         |
| Other items                                  |              | <b>46</b>    | 42           |
| <b>Current income taxes</b>                  |              | <b>2,905</b> | 2,654        |

*a) future recovery associated with refundable dividend tax on hand of \$1,809 has not been recognized*

*Richards Packaging Income Fund*

**NOTES TO INTERIM FINANCIAL STATEMENTS**

*Unaudited*

*March 31, 2019*

*[Cdn\$ thousands]*

**5. UNITS AND EXCHANGEABLE SHARES**

| <i>Number outstanding</i> | <b>Units<br/>basic</b> | <b>Weighted<br/>average</b> | <b>Exchangeable<br/>Shares</b> | <b>Units<br/>diluted</b> | <b>Weighted<br/>average</b> |
|---------------------------|------------------------|-----------------------------|--------------------------------|--------------------------|-----------------------------|
| December 31, 2017         | 10,893,365             | 10,875,082                  | 799,648                        | 11,693,013               | 11,693,013                  |
| March 31, 2018            | 10,893,365             | 10,893,365                  | 799,648                        | 11,693,013               | 11,693,013                  |
| <b>December 31, 2018</b>  | <b>10,893,365</b>      | <b>10,893,365</b>           | <b>799,648</b>                 | <b>11,693,013</b>        | <b>11,693,013</b>           |
| <b>March 31, 2019</b>     | <b>10,893,365</b>      | <b>10,893,365</b>           | <b>799,648</b>                 | <b>11,693,013</b>        | <b>11,693,013</b>           |

Exchangeable shares mark-to-market loss reflects a unit price increase during the three months ended March 31, 2019 of \$2.81 to \$37.81 per Unit.

***Richards Packaging Income Fund***

**NOTES TO INTERIM FINANCIAL STATEMENTS**

*Unaudited*

*March 31, 2019*

*[Cdn\$ thousands]*

**6. ADDITIONAL CASH FLOW INFORMATION**

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

|                               | <b>Notes</b> | <b>2019</b>    | <b>2018</b> |
|-------------------------------|--------------|----------------|-------------|
| Accounts receivable           | 2            | <b>(3,268)</b> | (2,273)     |
| Inventory                     |              | <b>3,311</b>   | 1,730       |
| Prepaid expenses and deposits |              | <b>816</b>     | 243         |
| Accounts payable and accruals | 2            | <b>(6,618)</b> | (3,495)     |
|                               |              | <b>(5,759)</b> | (3,795)     |

Total foreign exchange translation impact excluded from the above was \$904 loss [2018 – \$1,004 gain].