Q3 QUARTERLY REPORT

Richards Packaging Income Fund

Quarter ended September 30, 2019

Report Contents

Richards Packaging Income Fund

CEO'S REPORT TO UNITHOLDERS

September 30, 2019

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 25% tariff on Chinese imports imposed by the US government and implemented in May resulted in a $2 mil. revenue loss in the third quarter from the loss of two large customers, however our food & beverage sales overall were up 5.0% as these losses were fully offset by new business and higher pricing as the tariff was passed on.

Third quarter performance exceeded our expectations with revenue growth of $5.9 million, or 7.2%, as 4.9% organic growth combined with a 2.3% positive translation on a U.S./Cdn. 0.8¢ weakening of the dollar to 75.7¢. Adjusted EBITDA was up $0.8 million, or 6.7% at 14.5% of sales, due to higher sales volumes. Net income was up $3.4 million, or 18¢ per Unit, mainly reflecting a $1.1 million mark-to-market gain on exchangeable shares on a $2.41 Unit price decrease to $40.50 (2018 $1.8 million loss).

Nine months results were as expected with revenue growth of $18.4 million, or 7.8%, reflecting organic revenue growth of 4.4% and a positive foreign exchange impact of 3.4%. Adjusted EBITDA[1] was up $2.3 million, or 6.7%, at 14.4% of sales due to higher sales volumes. Net income increased by $2.3 million, or 18¢ per Unit, when compared to the previous year mainly due to a $2.0 million lower mark-to-market loss on the exchangeable shares.

The $4.7 million of free cash flow[2] generated in the third quarter was deployed to pay down the debt by $4.0 million and invest in working capital. The Fund's leverage dropped to 0.4 times, or by 0.1 times compared to June 30, 2019. The 336,642 exchangeable shares previously issued by Richards Packaging Holdings (US) were converted to Units in the third quarter.

The Fund paid monthly distributions of 11¢ per Unit during the third quarter, which represented an annualized yield of 3.3% on the September 30th closing price of $40.50 per Unit. The payout ratio[3] for the third quarter was 45% reflecting a 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" Oct. 31, 2019

Chief Executive Officer
Richards Packaging Inc.
6095 Ordan Drive
Mississauga, Ontario
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Richards Packaging Income Fund

MANAGEMENT'S DISCUSSION AND ANALYSIS

October 31, 2019

This management's discussion and analysis ("MD&A") of Richards Packaging Income Fund for the third quarter should be read in conjunction with the attached condensed interim financial statements dated September 30, 2019, the second quarter report dated July 29, 2019, the first quarter report dated April 29, 2019, the 2018 Annual Report and the 2018 Annual Information Form both dated March 6, 2019. 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 as disclosed in the New Accounting Policy.

Description of the Business

Richards Packaging serves a wide customer base that is comprised of approximately 14,200 regional food & beverage, cosmetics, and healthcare 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 7% of the total revenues of Richards Packaging (2018 10%).

Financial Highlights

This MD&A covers the three and nine months ended September 30, 2019 generally referred to in this MD&A as the "third quarter" and the "nine months", respectively. The following table sets out selected consolidated financial information:

($ thousands)	Qtr. 3		Nine months	
	2019	**2018**	**2019**	**2018**
Income Statement Data:				
Revenue	**87,273**	81,413	**254,623**	236,273
Net income	**8,879**	5,469	**16,429**	14,139
Diluted per Unit b)	***68.1¢***	*50.2¢*	***$1.48***	*$1.30*
Financial Position Data:				
Assets	**241,945**	203,346		
Long-term financial liabilities	**48,607**	28,944		
Leverage a)	***0.4***	*0.6*		
Cash Flow Statement Data:				
Distributions	**3,882**	3,893	**11,669**	11,672
Diluted per Unit	***33.2¢***	*33.3¢*	***99.8¢***	*99.8¢*
Payout ratio [3]	***45%***	*51%*	***48%***	*51%*
Debt repayments	**4,000**	1,000	**8,000**	4,500

a) anti-dilutive results revert back to basic income per Unit
b) Term debt/Adjusted EBITDA

- Revenue up $5.9 mil., or 7.2%, due to organic growth of 4.9% and the foreign exchange impact of 2.3% from a 0.8¢ U.S./Cdn. decrease to 75.7¢,
- Adjusted EBITDA[1] up $0.8 mil., or 6.7%, representing 14.5% of sales,
- Current income taxes up $0.3 mil. mainly due to higher taxable income,
- Net income increased $3.4 mil. due primarily to higher Adjusted EBITDA and a higher mark-to-market gain on exchangeable shares ($3.0 mil.),
- Non-cash working capital increased $0.6 mil. mainly due to higher accounts receivable ($3.0 mil.) offset by higher accounts payable ($2.7 mil.),
- Free cash flow[2] of $4.7 mil. was utilized to pay $4.0 million of debt and invest in working capital,
- Leverage ratio down 0.1x to 0.4 x compared to ratio as at June 30, 2019,
- Assets increased by $33.6 mil. and long-term financial liabilities by $29.2 mil., for the nine months to reflect the new accounting policy for leases,
- Distributable cash flow[2] up $1.0 mil., or 8.6¢ per Unit resulting in a 45% payout ratio[3], and
- Monthly distributions of 11¢ per Unit represented a 3.3% annualized return on the Sept. 30th closing price of $40.50 per Unit.

Review of Operations

Operations were split approximately half in the United States ("Richards Packaging US") and half in Canada. Approximately forty-two percent of sales are concentrated in Los Angeles, Reno and Portland and 33% in Toronto, Montreal, Winnipeg and Vancouver.

Revenue increased by $5.9 million or 7.2% for the third quarter and by $18.4 million or 7.8% for the nine months from the same periods in 2018. These increases represent organic growth of $4.0 million or 4.9% and $10.4 million or 4.4% and the positive translation impact of $1.8 million, or 2.3% and $8.0 million or 3.4%, respectively. The Canadian dollar weakened by 0.8¢ to U.S./Cdn.75.7¢ for the third quarter and by 2.4¢ for the nine months. The translation impact for the third quarter was more positive due to revenue growth in Richards Packaging US.

	Qtr.3		Nine months	
(% change over p/y)	**2019**	**2018**	**2019**	**2018**
Revenue disaggregation				
Cosmetics……………….....	**4.6%**	12.1%	**7.9%**	7.2%
Heathcare………..................	**8.0%**	10.0%	**7.5%**	8.7%
Food, beverage & other…….	**5.0%**	2.1%	**2.0%**	2.5%
Exchange translation………..	**2.3%**	3.9%	**3.4%**	0.3%
Weighted average growth…..	**7.2%**	10.7%	**7.8%**	5.4%

Cosmetics was $4.3 million higher for the nine months from the same period in 2018, excluding the impact of translation as our extra inventory investment ahead of the China tariff was sold to large customers outside of our base ($1.1 million) in addition to new customers adding $0.5 million. The remaining increase for the third quarter and for the nine months represents normal activity across the Cosmetics customer base.

Healthcare increased $1.5 million for the third quarter and $4.1 million for the nine months from the same periods in 2018, with the $0.7 million slowdown in the second quarter spilling over to the third quarter as the threat of the Ontario government proposed budget cuts were lifted. For the nine months, Healthcare increased $0.9 million due to our supplier acquiring its competitor at the end of the first quarter of 2018 and $0.4 million due to new customers. The remaining increase for the third quarter and the nine months represents normal activity across the Healthcare customer base.

Food, beverage and other increased by $1.7 million for the third quarter and $2.0 million for the nine months from the same periods in 2018. The third quarter was higher primarily due to new customers ($1.8 million) and higher pricing reflecting tariffs ($1.0 million) offset by the loss of 2 large customers representing $2.0 million per quarter. The remaining increase of $0.8 million for the third quarter and $1.8 million for the nine months were in line with GDP growth.

Cost of products sold (before amortization and lease expense) for the third quarter and the nine months increased by $4.7 million and by $15.6 million from the same periods in 2018, respectively. Gross profit margins for the third quarter was similar to the first half and over the same period in 2018 at 18.3%. Resin price volatility and tariffs 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 lease depreciation required to be characterized as finance leases under the new IFRS 16 and is higher against the same period in 2018 accounted for as operating leases under IAS 17 due to the move into one larger facility and a renewal of another.

Administrative expenses (before amortization) increased $0.3 million for the third quarter and $0.4 million for the nine months with the same periods in 2018 mainly due to inflation.

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 third quarter leading to the gain as the Canadian dollar weakened by 0.9¢ from June 30 to 75.5¢ U.S./Cdn.

($ thousands)	Qtr. 3		Nine months	
	2019	**2018**	**2019**	**2018**
Revenue	**87,273**	81,413	**254,623**	236,273
Cost of sales	**69,700**	65,031	**203,852**	188,272
Lease expense	**1,577**	1,461	**4,608**	4,421
Gross profit	**15,996**	14,921	**46,163**	43,580
	18.3%	*18.3%*	***18.1%***	*18.4%*
Administrative expenses	**3,343**	3,074	**9,537**	9,120
Foreign currency loss (gain)	**(20)**	(29)	**(82)**	58
Adjusted EBITDA[1]	**12,673**	11,876	**36,708**	34,402
	14.5%	*14.6%*	***14.4%***	*14.6%*
Amortization	**907**	823	**2,650**	2,400
Exceptional items	**—**	—	**281**	—
Financial expenses	**874**	595	**2,517**	1,726
Exchangeable shares	**(915)**	2,129	**6,011**	7,989
Share of income - Vision	**9**	(16)	**35**	(8)
Income tax expense	**2,919**	2,876	**8,785**	8,156
Net Income	**8,879**	5,469	**16,429**	14,139

Adjusted EBITDA[1] for the third quarter and nine months increased by $0.8 million, or 6.7%, and by $2.3 million, or 6.7%, from the same periods in 2018, respectively. As a percent of sales, Adjusted EBITDA was at 14.5% for the third quarter and 14.4% for the nine months, similar to the same periods in 2018. The impact of translation was an increase of $0.4 million for the third quarter and $1.5 million for the nine months due to the weaker Canadian dollar and higher earnings at Richards Packaging US.

Amortization (excluding leases) of $0.9 million for the third quarter and $2.7 million for the nine months was comprised of $0.5 million and $1.4 million respectively for intangibles assets amortization, which represents a charge for customer relationships. Depreciation for capital assets was $0.4 million and $1.3 million for the third quarter and the nine months respectively, which annualized, is approximately Richards Packaging's normalized annual maintenance capital expenditure requirement.

Exceptional items in the nine months include professional fees associated with our reorganization.

Financial expenses were $0.3 million higher for the third quarter and up $0.8 million for the nine months compared to the same periods in 2018 due to interest on leases with the adoption of IFRS 16. Exchangeable shares mark-to-market loss (gain) reflects a $2.41 per Unit decrease during the third quarter to $40.50 and an increase of $5.50 per Unit for the nine months. Exchangeable shares monthly distributions were 11¢ per Share in the nine months of 2019 and was down $0.1 million, reflecting the conversion of 336,642 shares in the third quarter, from the same period in 2018.

Income tax expense increased $0.1 million for the third quarter and $0.6 million for the nine months compared to the same periods in 2018, respectively primarily on higher taxable income.

Net income was up $3.4 million or 17.9¢ per Unit and $2.3 million or 18.0¢ per Unit on a diluted basis for the third quarter and for the nine months, respectively.

Distributable Cash Flow[2]

The distributable cash flow 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 a $5.0 million revolving debt facility (currently undrawn) or free cash flow[2].

Distributable cash flow for the third quarter was $1.0 million higher and $1.3 million higher for the nine months compared to the same periods in 2018. Overall the increase was mainly due to higher Adjusted EBITDA[1] and lower maintenance capital offset by higher current income taxes.

Free cash flow[2] of $4.7 million for the third quarter was deployed to repay $4.0 million of term debt and fund working capital.

Monthly distributions paid of 11¢ per Unit represent a payout ratio[3] of 45% for the third quarter and represent an annual yield of 3.3% on a $40.50 price per Unit at September 30, 2019. The Unit distributions for the nine months are characterized as 77% return of capital and 23% capital dividends.

($ thousands)	**Qtr. 3**		**Nine months**	
	2019	**2018**	**2019**	**2018**
Cash provided by operating activities	**11,740**	5,374	**24,690**	14,702
Lease expense	**(1,577)**	—	**(4,608)**	—
Exceptional items	**—**	—	**281**	—
Changes in non-cash working capital	**611**	3,532	**6,609**	8,479
Income tax payments	**1,900**	2,970	**9,736**	11,221
Adjusted EBITDA[1]	**12,673**	11,876	**36,708**	34,402
Exceptional items	**—**	—	**281**	—
Interest (excluding leases)	**559**	561	**1,700**	1,652
Current income tax	**3,188**	2,852	**9,476**	8,427
Maintenance capital	**343**	881	**1,182**	1,578
Distributable cash flow[2]	**8,583**	7,582	**24,068**	22,745
Diluted per Unit	***73.4¢***	*64.8¢*	***$2.06***	*$1.95*
Distributions	**3,882**	3,893	**11,669**	11,672
Diluted per Unit	***33.2¢***	*33.3¢*	***99.8¢***	*99.8¢*
Payout ratio[3]	***45%***	*51%*	***48%***	*51%*
Free cash flow[2]	**4,701**	3,689	**12,399**	11,073
Units outstanding *(average)*				
Diluted basis 000's	**11,693**	11,693	**11,693**	11,693

Liquidity and Financing

Cash flows from operating activities

Cash flow from operating activities was up $6.4 million for the third quarter and $10.0 million for the nine months over the same periods in 2018, primarily due to the recharacterization of operating leases included in 2018. In addition, during the third quarter, working capital increased by $0.6 million mainly on higher receivables of $3.0 million offset by higher payables of $2.7 million. For the nine months, working capital increased $6.6 million as the increase in receivables of $4.3 million and decrease in payables of $4.1 million was partially offset by decreases of $1.7 million in inventory.

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.

Current income taxes

Current income tax expense of $3.2 million for the third quarter and $9.5 million for the nine months reflects the higher taxable income in the respective periods.

Capital expenditures

Maintenance capital expenditures for the nine months were $1.2 million (2018 $1.6 million) mainly comprised of refurbishment of moulds for replacement packaging and computer equipment upgrades and are lower than the same period in 2018 due to the $0.5 million for the installation of a high productivity warehousing solution not repeating this year. There were no expansion capital expenditures for the nine months (2018 $0.1 million).

Financing activities and instruments

Credit facilities include a $19.5 million term loan (2018 $29.0 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 a prime rate plus a premium of 0.15% to 0.80%. During the third quarter, $4.0 million was repaid (2018 $1.0 million).

The credit facilities are subject to a number of covenants including the leverage ratio which is to maintain debt less than 2.75 times the trailing twelve months Adjusted EBITDA[1]. As at September 30, 2019, our leverage ratio was 0.4 times (2018 0.6 times).

Combined with cash flow from operations, management believes that adequate financing will be available for the foreseeable future[4].

Outlook Sensitivities[4]

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.

For the fourth quarter of 2019, we expect food & beverage revenue to be down by $1.0 million as the large customer loss is expected to be partially offset by organic growth. Exchange translation at the current exchange rate of U.S./Cdn. 76¢ will be flat over the same period in 2018. The sensitivity to revenue is $0.5 million and to Adjusted EBITDA[1] is $0.07 million for every 1¢ movement in the exchange rate.

Maintenance capital will continue to be funded by cash flow from operations at $0.4 million per quarter. The IT system upgrade of an additional $1.0 million has been postponed until 2020. To date, $0.4 million has been spent and is included in prepaid expenses.

Distributable cash flow[2] from Richards Packaging US and Richards Canada's current tax profile are expected to allow for a full return of capital to Unitholders for the fourth quarter. Distributable cash flow[2] sensitivity on an annual basis to foreign currency fluctuations is $0.05 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 agreements, competition from other packaging companies, the extent and duration of an economic downturn, patent and trademark challenges, inventory obsolescence, trade risks, resin price and exchange rate fluctuations, interest rate volatility, liquidity risks, income taxes and reliance on key personnel. For a detailed description of these and other risks and uncertainties facing investors in the Fund please refer to the 2018 Annual Information Form dated March 6, 2019. To management's knowledge, no significant changes to these risks and uncertainties have occurred in the nine months 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 reported, and disclosure of, amounts for assets and liabilities as at September 30, 2019 and revenue and expenses for the period then ended. There have not been any significant changes in the critical accounting estimates in the nine months of 2019, relative to December 31, 2018 except for those associated with the implementation of the new lease accounting policy. 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 $31 million, long-term liabilities by $29 million and accounts payable and accruals by $4 million on the statements of financial position. Assets associated with lease contracts cannot be used as security for term borrowings.

Disclosure Controls and Internal Controls over Financial Reporting

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

Cautionary Statements

Additional information relating to the Fund is available on Richards Packaging's website at www.richardspackaging.com, SEDAR at www.sedar.com or TSX at www.tmx.com

1 *Management defines Adjusted EBITDA as 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 exceptional items, 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 6. Free cash flow is distributable cash flow less distributions. The objective of presenting this measure is to calculate the amount which is available for distribution to Unitholders or exchangeable shareholders and to determine the amount available to fund increases in working capital or expansion capital. Investors are cautioned that distributable cash flow should not be construed as an alternative to cash flow from operating, investing and financing activities 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[2]. The objective of presenting this measure is to calculate the percentage of distributions compared to the amount available for distribution under our credit agreement. Payout ratio does not have a standardized meaning prescribed by IFRS. The method of calculating payout ratio may not be comparable to similar measures presented by other companies.*

4 *The Report to Unitholders and this MD&A contains forward-looking information within the meaning of applicable securities laws. The forward-looking information reflects management's current beliefs and expectations regarding the future growth, results of operations, performance and business prospects and opportunities of the Fund and Richards Packaging. We use words such as "may", "will", "should", "anticipate", "plan", "expect", "believe", "predict", "estimate" and similar terminology to identify forward-looking information. It is based on assumptions, estimates and analysis made by us in light of our experience and our perception of trends, current conditions and expected developments, as well as other factors we believe to be reasonable and relevant in the circumstances. Forward-looking information involves significant known and unknown risks, uncertainties and other factors which may cause our actual results, performance or achievements to be materially different from those predicted, expressed or implied by the forward-looking information. Readers should not place undue reliance on forward-looking*

information as a number of factors could cause actual events, results and prospects to differ materially from those expressed in or implied by the forward-looking information. The risks and uncertainties include, among other things, changes in China tariff rates, changes in customer and supplier relationships, competition in the industry, inventory obsolescence, trade risks in respect of foreign suppliers, fluctuations in foreign exchange and interest rates, liability claims, reliance on key personnel, 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. While management believes the expectations expressed and the assumptions underlying same are reasonable, there can be no assurance that such expectations and assumptions will prove to be correct. In evaluating forward-looking information, readers should carefully consider the foregoing factors and various other factors which could cause actual results or events to differ materially from those indicated in the forward-looking information.

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

Richards Packaging Income Fund

STATEMENTS OF NET INCOME AND COMPREHENSIVE INCOME

Unaudited

For the three and nine months ended September 30 *[Consolidated]*

Cdn$ thousands	Notes	Three months 2019	Three months 2018	Nine months 2019	Nine months 2018
Revenue	*3*	**87,273**	81,413	**254,623**	236,273
Cost of sales	*2*	**72,241**	67,288	**211,087**	195,020
Administrative expenses	*2*	**3,286**	3,101	**9,841**	9,193
Foreign currency loss (gain)		**(20)**	(29)	**(82)**	58
Profit from operations		**11,766**	11,053	**33,777**	32,002
Financial expenses	*2*	**874**	595	**2,517**	1,726
Exchangeable shares					
Mark-to-market loss (gain)		**(1,116)**	1,831	**5,209**	7,101
Distributions		**201**	298	**802**	888
Share of income - Vision		**9**	(16)	**35**	(8)
Income before income taxes		**11,798**	8,345	**25,214**	22,295
Income tax expense (income)					
Current taxes	*4*	**3,188**	2,852	**9,476**	8,427
Deferred taxes	*2,4*	**(269)**	24	**(691)**	(271)
		2,919	2,876	**8,785**	8,156
Net income for the period		**8,879**	5,469	**16,429**	14,139
Basic & Diluted income per Unit	*5*	***80.2¢***	*50.2¢*	***$1.48***	*$1.30*
Other comprehensive income (loss)					
(subsequently recyclable to Net income)					
Richards Packaging US					
Currency translation adjustment	*2*	**795**	(1,564)	**(2,502)**	2,816
Comprehensive income for the period		**9,674**	3,905	**13,927**	16,955

See accompanying notes

"Susan Allen"	*"Gerry Glynn"*	*"Enzio Di Gennaro"*
Chair – Audit Committee	CEO – Richards Packaging Inc.	CFO – Richards Packaging Inc.

Richards Packaging Income Fund

STATEMENTS OF FINANCIAL POSITION

Unaudited

As at September 30 and December 31 *[Consolidated]*

[2017 restated – note 2]

Cdn$ thousands	Notes	Sept. 30 2019	Sept. 30 2018	Dec. 31 2018	Dec. 31 2017
ASSETS					
Current Assets					
Cash and cash equivalents		**3,754**	2,303	**6,168**	6,816
Accounts receivable	*2*	**38,419**	36,745	**34,395**	29,218
Inventory		**57,951**	55,944	**60,663**	48,801
Prepaid expenses and deposits		**5,252**	4,219	**5,453**	3,631
		105,375	99,211	**106,679**	88,466
Long-term Assets					
Property, plant and equipment	*2*	**35,574**	4,737	**4,797**	4,080
Leases receivable	*2*	**2,341**	—	**—**	—
Investment - Vision		**690**	753	**726**	745
Intangible assets		**12,212**	13,821	**13,775**	14,915
Goodwill		**85,753**	84,824	**86,996**	83,578
		136,570	104,135	**106,294**	103,318
		241,945	203,346	**212,973**	191,784
LIABILITIES & EQUITY					
Current Liabilities					
Accounts payable and accruals	*2*	**40,110**	37,578	**40,466**	31,842
Income tax payable	*4*	**929**	243	**1,189**	3,037
Distributions payable		**1,286**	1,297	**1,300**	1,296
Due to previous shareholder		**1,044**	1,020	**1,075**	989
Exchangeable shares	*5*	**18,579**	31,938	**27,900**	24,837
		61,948	72,076	**71,930**	62,001
Long-term Liabilities					
Term debt		**19,457**	28,944	**27,441**	33,440
Lease obligations	*2*	**29,150**	—	**—**	—
Deferred income taxes	*2,4*	**3,678**	4,269	**4,354**	4,461
		52,285	33,213	**31,795**	37,901
Equity					
Unitholders' capital	*5*	**20,861**	18,304	**14,710**	23,049
Retained earnings	*2*	**92,413**	67,618	**77,598**	59,514
Accumulated other comprehensive income	*2*	**14,438**	12,135	**16,940**	9,319
		127,711	98,057	**109,248**	91,882
		241,945	203,346	**212,973**	191,784

See accompanying notes

Richards Packaging Income Fund

STATEMENT OF CHANGES IN EQUITY

Unaudited

For the three and nine months ended September 30 *[Consolidated]*

Cdn$ thousands	**Notes**	**Unitholders' capital**	**Retained earnings**	**AOCI[a)]**	
June 30, 2018		21,899	62,149	13,699	97,747
Comprehensive income (loss)			5,469	(1,564)	3,905
Distributions		(3,595)			(3,595)
September 30, 2018		18,304	67,618	12,135	98,057
June 30, 2019		**10,000**	**83,534**	**13,643**	**107,177**
Comprehensive income			**8,879**	**795**	**9,673**
Conversion		**14,530**			**14,530**
Distributions		**(3,669)**			**(3,669)**
September 30, 2019		**20,861**	**92,413**	**14,438**	**127,711**
December 31, 2017		23,049	59,514	9,319	91,882
Comprehensive income			14,139	2,816	16,955
Distributions		(4,745)	(6,035)		(10,780)
September 30, 2018		18,304	67,618	12,135	98,057
December 31, 2018		**14,710**	**77,598**	**16,940**	**109,248**
IFRS 16 adjustment	*2*		**865**		**865**
January 1, 2019		**14,710**	**78,463**	**16,940**	**110,113**
Comprehensive income (loss)			**16,429**	**(2,502)**	**13,927**
Conversion		**14,530**			**14,530**
Distributions		**(8,379)**	**(2,480)**		**(10,859)**
September 30, 2019		**20,861**	**92,413**	**14,438**	**127,711**

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

See accompanying notes

Richards Packaging Income Fund

STATEMENT OF CASH FLOWS
Unaudited

For the three and nine months ended September 30 *[Consolidated]*

		Three months		Nine months	
Cdn$ thousands	**Notes**	**2019**	**2018**	**2019**	**2018**
OPERATING ACTIVITIES					
Profit from operations	*2*	**11,766**	11,053	**33,777**	32,002
Add items not involving cash					
Plant, equipment & lease depreciation	*2*	**2,021**	395	**5,895**	1,065
Intangible assets amortization		**464**	428	**1,363**	1,335
Income tax payments	*4*	**(1,900)**	(2,970)	**(9,736)**	(11,221)
Changes in non-cash working capital	*2,6*	**(611)**	(3,532)	**(6,609)**	(8,479)
Cash provided by operating activities		**11,740**	5,374	**24,690**	14,702
INVESTING ACTIVITIES					
Additions to plant and equipment		**(343)**	(881)	**(1,182)**	(1,666)
Cash used in investing activities		**(343)**	(881)	**(1,182)**	(1,666)
FINANCING ACTIVITIES					
Repayment of term debt		**(4,000)**	(1,000)	**(8,000)**	(4,500)
Lease obligation payments	*2*	**(1,294)**	—	**(3,651)**	—
Financial expenses paid	*2*	**(859)**	(561)	**(2,484)**	(1,652)
Distributions paid to Exchangeable Shareholders		**(250)**	(298)	**(852)**	(888)
Distributions paid to Unitholders		**(3,632)**	(3,595)	**(10,822)**	(10,785)
Cash used in financing activities		**(10,035)**	(5,454)	**(25,809)**	(17,825)
Net cash flow for the period		**1,362**	(961)	**(2,301)**	(4,789)
Cash, beginning of period		**2,355**	3,318	**6,168**	6,816
Foreign exchange effect		**37**	(54)	**(112)**	276
Cash, end of period		**3,754**	2,303	**3,754**	2,303

See accompanying notes

September 30, 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:

Operating lease commitments disclosed as at December 31, 2018		**24,291**
Lease extension options		**12,660**
Discount using incremental borrowing rate		(5,117)
Short-term leases		(270)
Lease liability as at January 1, 2019		**31,564**
Accounts payable and accruals	5,280	
Long-term lease obligations	26,284	
Lease additions		7,415
Currency translation adjustment		(702)
Lease obligation payments		(3,898)
Lease liability as at September 30, 2019		**34,379**
Accounts payable and accruals	5,230	
Long-term lease obligations	29,149	

September 30, 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:

Property and equipment leases recognized as at January 1, 2019		**28,701**
Property leases	28,334	
Computer equipment	11	
Warehouse and office	356	
Additions		7,438
Currency translation adjustment		(585)
Depreciation		(4,599)
Property, equipment and leases as at September 30, 2019		**30,955**
Property leases	30,638	
Computer equipment	20	
Warehouse and office	297	

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 ($372). The calculations to reflect the adoption of IFRS 16 for subleases are outlined below:

Sublease income disclosed as at December 31, 2018		**4,833**
Discount using the implicit lease rate		(1,970)
Lease receivable recognized as at January 1, 2019		**2,863**
Accounts receivable	233	
Leases receivable	2,630	
Sublease receipts net of financial income		(247)
Lease receivable recognized as at September 30, 2019		**2,616**
Accounts receivable	276	
Leases receivable	2,340	

The impact for the nine months ended September 30, 2019 on deferred taxes was a $329 decrease and on retained earnings a $314 increase.

September 30, 2019 [Cdn$ thousands]

3. REVENUE & SEGMENTED INFORMATION

	Three months		Nine months	
	2019	**2018**	**2019**	**2018**
Revenue by geography				
Canada	**35,207**	35,410	**104,782**	105,931
US	**52,066**	46,003	**149,841**	130,342
	87,273	81,413	**254,623**	236,273
Revenue by end user				
Cosmetics	**25,580**	24,019	**76,502**	68,471
Heathcare	**19,864**	18,394	**58,575**	54,473
Food, beverage & other	**41,829**	39,000	**119,546**	113,329
	87,273	81,413	**254,623**	236,273

4. INCOME TAXES

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

	Notes	Three months 2019	Three months 2018	Nine months 2019	Nine months 2018
Profit from operations	*2*	**11,766**	11,053	**33,777**	32,002
Financial expenses	*2*	**(874)**	(595)	**(2,517)**	(1,726)
Income subject to income taxes		**10,893**	10,458	**31,261**	30,276
Statutory tax rate		*26.8%*	*26.7%*	*26.8%*	*26.8%*
Income tax expense at statutory tax rate		**2,909**	2,792	**8,362**	8,107
Deferred income taxes	*2*	**268**	(24)	**691**	271
Current period adjustments					
Refinancing Intercompany notes[a)]		**(48)**	(48)	**(144)**	(144)
Financial expenses - leases	*2*	**80**	—	**211**	—
Foreign rate differential		**(5)**	72	**324**	92
Other items		**(17)**	60	**31**	101
Current income taxes		**3,188**	2,852	**9,476**	8,427

a) future recovery associated with refundable dividend tax on hand of $2,025 has not been recognized.

September 30, 2019 [Cdn$ thousands]

5. UNITS AND EXCHANGEABLE SHARES

Number outstanding	**Units basic**	**Weighted average**	**Exchangeable Shares**	**Units diluted**	**Weighted average**
December 31, 2017	10,893,365	10,875,082	799,648	11,693,013	11,693,013
September 30, 2018	10,893,365	10,893,365	799,648	11,693,013	11,693,013
nine months		10,893,365	799,648		11,693,013
December 31, 2018	**10,893,365**	**10,875,082**	**799,648**	**11,693,013**	**11,693,013**
Share conversion	**336,642**		**(336,642)**		
September 30, 2019	**11,230,007**	**11,065,345**	**463,006**	**11,693,013**	**11,693,013**
nine months		**11,065,345**	**463,006**		**11,693,013**

Exchangeable shares mark-to-market loss reflects a unit price increase during the nine months ended September 30, 2019 of 5.50 to $40.50 per Unit.

The impact on income per Unit of the mark-to-market loss and distributions to shareholders is anti-dilutive which reverts to basic income per Unit. The calculation of the diluted income per Unit would yield $0.68 for the three months and $1.92 for the nine-month period of 2019 [2017 – $1.89].

6. ADDITIONAL CASH FLOW INFORMATION

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

		Three months		**Nine months**	
	Notes	**2019**	**2018**	**2019**	**2018**
Accounts receivable	*2*	**(2,977)**	(3,250)	**(4,310)**	(7,056)
Inventory		**(121)**	(3,566)	**1,655**	(6,206)
Prepaid expenses and deposits		**(212)**	40	**116**	(537)
Accounts payable and accruals	*2*	**2,699**	3,244	**(4,070)**	5,321
		(611)	(3,532)	**(6,609)**	(8,478)

The foreign exchange translation impact excluded from the above was $529 loss [2018 – $714 loss] and $1,294 gain [2018 – $1,109 gain] for the three- and nine-month periods respectively.