Richards Packaging Income Fund

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, 2020.

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, 2020

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, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

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, 2019 and 2018;
- the consolidated statements of financial position as at December 31, 2019 and 2018;
- the consolidated statements of changes in equity for the years ended December 31, 2019 and 2018;
- the consolidated statements of cash flows for the years ended December 31, 2019 and 2018; 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 Sarah Dobenko.

(Signed) "PricewaterhouseCoopers LLP"

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Ontario
March 6, 2020

Richards Packaging Income Fund

STATEMENTS OF NET INCOME AND COMPREHENSIVE INCOME

For the years ended December 31 *[Consolidated]*

Cdn$ thousands, unless otherwise noted	Notes	2019	2018
Revenue	*4*	**334,148**	318,058
Cost of sales	*3,5*	**276,661**	262,691
Administrative expenses	*3,5*	**13,461**	12,517
Foreign currency loss (gain)	*18*	**(92)**	191
Profit from operations		**44,118**	42,659
Financial expenses	*3,14*	**3,268**	2,323
Exchangeable shares			
Mark-to-market loss	*15*	**6,724**	3,063
Distributions	*15*	**955**	1,189
Share of loss (income) - Vision	*17*	**69**	(1)
Income tax expense (income)			
Current taxes	*6*	**12,119**	12,281
Deferred taxes	*3,6*	**(751)**	(316)
		11,368	11,965
Net income		**21,734**	24,120
Basic and diluted income per Unit	*15*	***$1.97***	*$2.21*
Other comprehensive income (loss) *(subsequently recyclable to Net income)*			
Currency translation adjustment - Richards Packaging US	*2,3*	**(4,241)**	7,621
Comprehensive income		**17,493**	31,741

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

STATEMENTS OF FINANCIAL POSITION

As at December 31 *[Consolidated]*

Cdn$ thousands	Notes	2019	2018
ASSETS			
Current Assets			
Cash and cash equivalents	*7*	**8,023**	6,168
Accounts receivable	*3,8*	**32,339**	34,395
Inventory	*9*	**58,692**	60,663
Prepaid expenses and deposits	*10*	**4,812**	5,453
		103,866	106,679
Long-term Assets			
Leases	*3*	**39,918**	—
Plant and equipment	*12*	**4,776**	4,797
Leases receivable	*3*	**2,215**	—
Investment - Vision	*17*	**637**	726
Intangible assets	*13*	**11,644**	13,775
Goodwill	*13*	**84,958**	86,996
	4	**144,148**	106,294
		248,014	212,973
LIABILITIES & EQUITY			
Current Liabilities			
Accounts payable and accruals	*3,11*	**41,438**	40,466
Income tax payable	*6*	**674**	1,189
Distributions payable	*15*	**1,286**	1,300
Due to previous shareholder	*11*	**1,024**	1,075
Exchangeable shares	*15*	**20,935**	27,900
		65,357	71,930
Long-term Liabilities			
Term debt	*14*	**14,962**	27,441
Lease obligations	*3*	**37,385**	—
Deferred income taxes	*3,6*	**3,580**	4,354
		55,927	31,795
Equity			
Unitholders' capital	*15*	**16,314**	14,710
Retained earnings	*3*	**97,717**	77,598
Accumulated other comprehensive income	*2,3*	**12,699**	16,940
		126,730	109,248
		248,014	212,973
Contingencies	*19*		

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, 2017		23,049	59,514	9,319	91,882
Comprehensive income			24,120	7,621	31,741
Distributions[b)]	*15*	(8,339)	(6,036)		(14,375)
December 31, 2018		14,710	77,598	16,940	109,248
IFRS 16 adjustment	*3*		**865**		**865**
January 1, 2019		**14,710**	**78,463**	**16,940**	**110,113**
Comprehensive income (loss)			**21,734**	**(4,241)**	**17,493**
Distributions[b)]	*15*	**(12,085)**	**(2,480)**		**(14,565)**
Share conversion	*15*	**13,689**			**13,689**
December 31, 2019		**16,314**	**97,717**	**12,699**	**126,730**

a) AOCI - Accumulated other comprehensive income (loss) reflects the cumulative translation adjustment related to Richards US.

b) The retained earnings amounts represent 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**	**2019**	**2018**
OPERATING ACTIVITIES			
Profit from operations		**44,118**	42,659
Add items not involving cash			
Plant, equipment & lease depreciation	*3,12*	**7,955**	1,532
Intangible assets amortization	*13*	**1,812**	1,768
Income tax payments		**(12,634)**	(14,178)
Dividends - Vision	*17*	**20**	20
Changes in non-cash working capital	*3,20*	**(1,305)**	(6,945)
Cash provided by operating activities		**39,966**	24,856
INVESTING ACTIVITIES			
Additions to plant and equipment	*12*	**(1,761)**	(2,069)
Cash used in investing activities		**(1,761)**	(2,069)
FINANCING ACTIVITIES			
Repayment of term debt	*14*	**(12,500)**	(6,000)
Lease payments	*3*	**(6,106)**	—
Financial expenses paid excluding leases	*14*	**(2,223)**	(2,323)
Distributions paid to Exchangeable Shareholders	*15*	**(1,006)**	(1,185)
Distributions paid to Unitholders	*15*	**(14,527)**	(14,378)
Cash used in financing activities		**(36,362)**	(23,886)
Net cash flow for the year		**1,843**	(1,099)
Cash and cash equivalents, beginning of year	*7*	**6,168**	6,816
Foreign exchange effect		**12**	451
Cash and cash equivalents, end of year	*7*	**8,023**	6,168

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

NOTES TO FINANCIAL STATEMENTS

1. FORMATION OF THE FUND

Richards Packaging Income Fund [the "Fund"] is an open-ended, limited purpose trust established under the laws of the Province of Ontario, Canada by a Declaration of Trust dated February 26, 2004. The Fund completed an initial public offering of trust Units [the "Units"] on April 7, 2004, through the Toronto Stock Exchange, to facilitate the acquisition of Richards Packaging Inc.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial statements of the Fund have been prepared in accordance with International Financial Reporting Standards ["IFRS"] as issued by the International Accounting Standards Board. The measurement basis used was the historic cost convention, except for exchangeable shares which are measured at fair value. Accounting policies utilized under IFRS are consistent with those previously applied 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 and its investments, Richards Packaging Holdings Inc. ["Richards Canada"] and Richards Packaging Holdings 2 Inc. ["Richards US"] and their wholly owned subsidiaries together are referred to as "Richards Packaging". The wholly owned subsidiaries of Richards Canada include Richards Packaging Inc. and Healthmark Services Ltd. ("Healthmark"). The wholly owned subsidiaries of Richards US include Richards Packaging Holdings (US) Inc., Richards Packaging, Inc., The E.J. McKernan Company and McKernan Packaging - Richards de Mexico, S.A. de c.v. Vision Plastics Inc. ["Vision"], which is jointly controlled and accounted for under the equity method, is a plastic container manufacturing plant located in Vancouver, British Columbia, Canada.

Foreign currency translation

The Canadian dollar is the functional currency for the Fund and its Canadian investments, except for Richards US for which accounts in foreign currencies have been translated into Canadian dollars. Monetary items are recorded at exchange rates in effect at the statement of financial position dates and non-monetary items are recorded at the exchange rates in effect on the date of the transactions. Revenue and expenses are recorded at average monthly exchange rates prevailing during the year. Gains and losses arising from foreign currency translations are included in profit from operations.

Richards US has a US dollar functional currency. Assets and liabilities are translated at exchange rates in effect on the statement of financial position dates. Revenue and expenses are translated at average monthly exchange rates prevailing during the year. Effects of translation are recorded through other comprehensive income (loss) and included in equity as accumulated other comprehensive income (loss). Upon any future sale of Richards 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, reserve for slow moving inventory and the testing for impairment of goodwill and trademarks 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.

Leases

Rental payments and lease inducements were expensed on a straight-line basis over the term of the leases for the year ending December 31, 2018. On January 1, 2019 IFRS 16, *Leases* was adopted [note 3].

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 a reserve for slow moving inventory.

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:

December 31, 2019 and 2018 [Cdn$ thousands, unless otherwise noted]

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 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 annually. 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 15]. Mark-to-market changes in value along with distributions are expensed during the period.

3. CHANGE IN ACCOUNTING POLICY

IFRS 16, *Leases,* was adopted on January 1, 2019, for real estate and equipment 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. The new policy requires that these leases now be treated as "right of use assets" which requires that the present value of lease payments be recognized utilizing Richards Packaging's incremental borrowing rate of 4% as the discount rate. Therefore, on January 1, 2019 we recognized $28,701 of leases, $2,863 of leases receivable and $31,564 of lease obligations as well as an adjustment to opening retained earnings of $865. Lease payments reduce lease obligations after adjusting for implied financial expenses ($1,023) 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 ($900) continue to be treated as operating in nature. The calculations to reflect the adoption of IFRS 16 for lease obligations are outlined below:

December 31, 2019 and 2018 [Cdn$ thousands, unless otherwise noted]

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)
January 1, 2019		**31,564**
Accounts payable and accruals	5,280	
Lease obligations	26,284	
Lease additions		18,787
Lease terminations		(844)
Currency translation adjustment		(614)
Lease obligation payments		(5,443)
December 31, 2019		**43,450**
Accounts payable and accruals	6,065	
Lease obligations	37,385	

Leased "right of use assets" are depreciated on a straight-line basis over the expected terms of the leases. The calculations to reflect the adoption of IFRS 16 are outlined below:

	Property	**Computer Equipment**	**Warehouse & Office**	**Total**
January 1, 2019	28,333	11	357	**28,701**
Additions	18,802			**18,802**
Terminations	(836)			**(836)**
Currency translation adjustment	(454)		(2)	**(456)**
Depreciation	(6,227)	(2)	(64)	**(6,293)**
December 31, 2019				
Carrying value	45,845	11	355	**46,211**
Accumulated Depreciation	(6,227)	(2)	(64)	**(6,293)**
Net Book Value	39,618	9	291	**39,918**

December 31, 2019 and 2018 [Cdn$ thousands, unless otherwise noted]

Richards Packaging has entered into subleases for property. 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 ($489). The calculations to reflect the adoption of IFRS 16 for subleases are outlined below:

Sublease income receivable as at December 31, 2018		**4,833**
Discount using the implicit lease rate		(1,970)
January 1, 2019		**2,863**
Accounts receivable	233	
Leases receivable	2,630	
Sublease receipts net of financial income		(361)
December 31, 2019		**2,502**
Accounts receivable	287	
Leases receivable	2,215	

The timing of when lease obligations and leases receivable come due are as follows:

	2021	**2022**	**2023**	**2024**	**beyond**
Lease obligations	5,801	6,007	6,112	5,383	14,082
Leases receivable[a)]	743	766	789	812	69

a) presented on a gross basis excluding discount of $677

The impact for the year ended December 31, 2019 on deferred taxes was a $282 decrease and on retained earnings a $554 increase.

4. REVENUE & SEGMENTED INFORMATION

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

	Canada		**United States**	
	2019	**2018**	**2019**	**2018**
Revenue	**140,313**	143,979	**193,835**	174,079
Long-term assets	**67,986**	51,259	**76,162**	55,035

December 31, 2019 and 2018 [Cdn$ thousands, unless otherwise noted]

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

	2019	**2018**
Revenue by end user		
Cosmetics	**99,504**	92,442
Healthcare	**78,509**	75,419
Food, beverage & other	**156,135**	150,197
	334,148	318,058

5. EXPENSES BY NATURE

	2019	**2018**
Salaries and wages	**24,687**	23,211
Benefits	**5,198**	4,832
Bonuses	**1,857**	1,934
Long-term incentive plan	**180**	165
Employee compensation	**31,922**	30,142
Inventory sold and services provided	**218,949**	208,357
Inventory provisions	**991**	1,386
Selling, distribution and other costs	**27,593**	25,727
Depreciation and amortization[a)]	**9,767**	3,300
Lease expenses[a)]	**900**	6,296
Cost of sales and administrative expenses	**290,122**	275,208

a) Reflects the impact of IFRS 16 Leases implementation [note 3]. 2019 represents short term leases only.

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 $1,278 [2018 – $1,454]. Directors are eligible to participate in a deferred share unit ("DSU") plan where they may elect to receive their annual fees in DSU's. Amounts deferred under the DSU plan and accrued distributions earned thereon vest immediately and can be redeemed only when the DSU plan participant ceases to serve as a Trustee/Director.

6. INCOME TAXES

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

December 31, 2019 and 2018 [Cdn$ thousands, unless otherwise noted]

	2019	2018
Profit from operations	**44,118**	42,659
Financial expenses	**(3,268)**	(2,323)
Income subject to income taxes	**40,850**	40,336
Statutory tax rate	*26.8%*	*26.8%*
Income tax expense at statutory tax rate	**10,928**	10,818
Deferred income taxes	**751**	316
Current period adjustments		
Refinancing Intercompany notes [a)]	**129**	1,054
Foreign tax differential	**—**	(128)
Foreign rate differential	**155**	156
Other items	**156**	65
Current income taxes	**12,119**	**12,281**

a) future recovery associated with refundable dividend tax on hand of $2,081 [2018 - $1,857] has not been recognized. Fully taxable exchangeable share dividends gave rise to a $192 recovery [2018 - $192].

Approximately US$30,500 of unremitted earnings in Richards US as of December 31, 2019 is permanently reinvested and therefore the associated withholding tax is not recognized.

Significant components of deferred income taxes are as follows:

	2019	expense/ (income)	f/x [b)]	IFRS 16 adjustment	2018	expense/ (income)	f/x	2017
Deferred tax liabilities								
Customer relationships[a)]	**2,024**	**(487)**	**(41)**		**2,552**	(480)	83	**2,949**
Patents and trademarks[a)]	**1,172**		**(56)**		**1,228**		94	**1,134**
Plant and equipment	**944**	**48**	**(31)**		**927**	185	45	**697**
Computer system software								
Other	**60**	**(19)**	**(7)**		**86**	(28)	22	**92**
Deferred tax assets								
Leases	**(191)**	**(282)**		**91**	**—**			
Non-cash working capital	**(429)**	**(11)**	**21**	**.**	**(439)**	7	(35)	**(411)**
	3,580	**(751)**	**(114)**	**91**	**4,354**	(316)	209	**4,461**

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

b) f/x = foreign exchange differences

December 31, 2019 and 2018 [Cdn$ thousands, unless otherwise noted]

7. CASH

	2019	2018
Cash at bank	**8,857**	6,424
Demand deposits	**814**	2,011
Issued and outstanding cheques	**(1,648)**	(2,267)
	8,023	6,168

Cash at bank represents cash clearing accounts at various branches which are netted on an overall basis.

8. ACCOUNTS RECEIVABLE

	2019		2018	
	$	Expected Loss %	$	Expected Loss %
Current	**22,219**	***0.1%***	21,839	*0.1%*
Up to 60 days past due	**8,301**	***0.3%***	11,014	*0.4%*
61 – 90 days past due	**651**	***0.7%***	452	*1.5%*
Over 90 days past due	**1,927**	***52.8%***	1,808	*45.7%*
Trade receivables	**33,098**	***3.2%***	35,113	*2.5%*
Allowance for doubtful accounts[a)]	**(1,049)**		(883)	
Supplier rebates	**3**		165	
Lease receivables[b)]	**287**			
	32,339		34,395	

a) *Management recorded new provisions of $317 [2018 – $291] and wrote off $151 [2018 – $337]. The remaining non-cash change in the accounts receivable reflects foreign exchange differences.*
b) *Reflects the impact of IFRS 16 Leases implementation [note 3].*

9. INVENTORY

	2019	2018
Goods purchased for resale	**62,132**	62,347
Goods in transit	**4,253**	5,903
Manufacturing raw materials	**545**	676
Manufactured finished goods	**1,539**	1,651
Reserve for slow moving inventory[a)]	**(9,777)**	(9,914)
	58,692	60,663

a) Management recorded a provision of $991 [2018 – $1,386] and recognized write-offs of $1,128 [2018 – $1,151]. The remaining non-cash change in inventory provision reflects foreign exchange differences.

December 31, 2019 and 2018 [Cdn$ thousands, unless otherwise noted]

10. PREPAID EXPENSES AND DEPOSITS

	2019	2018
Deposits for commitment to purchase goods	**1,402**	2,045
Deferred costs on maintenance contracts	**1,103**	973
Deposits for other commitments	**1,042**	1,222
Rent	**942**	866
Other deposits	**323**	347
	4,812	5,453

11. ACCOUNTS PAYABLE AND ACCRUALS

	2019	2018
Trade payables	**27,144**	31,450
Rebates	**596**	651
Staffing expenses[a)]	**4,091**	3,874
Professional fees	**486**	498
Sales tax	**596**	563
Deferred revenue on maintenance contracts	**1,340**	1,187
Leases [b)]	**6,065**	956
Other payables	**1,120**	1,287
	41,438	40,466

a) Management bonuses included in staffing expenses have been fully paid subsequent to year end.
b) Reflects the impact of IFRS 16 Leases implementation [note 3].

Included in Trade payables is $214 [2018 – $463] associated with payables to Vision *[note 17]*.

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, 2019 and 2018 [Cdn$ thousands, unless otherwise noted]

12. PLANT AND EQUIPMENT

	Manufacturing Equipment	Moulds	Warehouse & office	Computer equipment	Leaseholds	Total
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
Additions/Acquisition	**133**	**868**	**158**	**348**	**254**	**1,761**
Fully depreciated assets	**(232)**	**(578)**	**(206)**	**(202)**	**(159)**	**(1,377)**
Depreciation	**(245)**	**(814)**	**(227)**	**(179)**	**(197)**	**(1,662)**
Foreign exchange differences	**69**	**(130)**	**(60)**	**0**	**1**	**(120)**
December 31, 2019						
Carrying value	**3,034**	**4,641**	**1,860**	**1,184**	**1,075**	**11,794**
Accumulated Depreciation	**(2,112)**	**(3,000)**	**(757)**	**(587)**	**(562)**	**(7,018)**
Net book value	**922**	**1,641**	**1,103**	**597**	**513**	**4,776**

13. INTANGIBLE ASSETS AND GOODWILL

Intangible assets and Goodwill are not deductible for tax purposes.

Goodwill and trademarks were assessed for impairment by calculating the recoverable amount determined based on the value in use. Five-year cash flow budgets, prepared using growth rates experienced in the industry and approved by the Board, were used with the application of a pre-tax discount rate of 13% [2018 – 12%]. For periods beyond the budget period, cash flows were extrapolated using long term average growth rates of 3.0% [2018 – 1.0%]. Reasonably possible changes in key assumptions would not cause the recoverable amount to fall below the carrying value.

December 31, 2019 and 2018 [Cdn$ thousands, unless otherwise noted]

	Customer relationships	Trade-marks	Computer software	Intangible assets	Goodwill
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
Amortization	**(1,766)**		**(46)**	**(1,812)**	
Foreign exchange differences	**(143)**	**(197)**	**21**	**(319)**	**(2,038)**
December 31, 2019					
Carrying value	**21,968**	**4,126**	**577**	**26,671**	**84,958**
Accumulated amortization	**(14,556)**		**(471)**	**(15,027)**	
Net book value	**7,412**	**4,126**	**106**	**11,644**	**84,958**

14. 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 which is amortized over the loan term. The revolving credit facility availability of $5,000 [2018 – $5,000], which was undrawn at December 31, 2019, bears interest at the prime rate plus a premium of 0.2% to 0.8%. The term facility of $15,000 [2018 – $27,500] bears interest at the bankers' acceptance borrowing rate plus a premium of 1.15% to 1.8%. The effective interest rate at December 31, 2019 was 3.2 % [2018 – 3.0%]. Voluntary repayments of term debt of $12,500 [2018 – $6,000] were made during the year ended December 31, 2019.

December 31, 2019 and 2018 [Cdn$ thousands, unless otherwise noted]

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

	2019	**2018**
Interest expense	**722**	899
Credit card fees	**1,295**	1,062
Credit facility charges	**206**	275
Bank and intercompany refinancing fees	**22**	87
Sublease financial income	**(489)**	—
Lease obligation interest	**1,512**	—
	3,268	2,323

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 16]*.

15. 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
December 31, 2018	10,893,365	10,893,365	799,648	11,693,013	11,693,013
Share conversion	336,642		(336,642)		
December 31, 2019	**11,230,007**	**11,021,566**	**463,006**	**11,693,013**	**11,693,013**

Exchangeable shares mark-to-market loss reflects a unit price increase during the year ended December 31, 2019 of $10.59 [2018 – $3.83] to $45.59 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 [2018 – 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, 2019 to purchase up to 200,000 Units prior to March 13, 2020. There were no purchases during the year. During 2019, 336,642 exchangeable shares were converted to Units at an average value of $43.16/Unit.

Contributed surplus

The components of Unitholders' capital include unit capital and contributed surplus. The conversion in 2019 of 336,642 exchangeable shares resulted in a $10,662 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 Richards Packaging Holdings Inc. 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 exchangeable shares issued by Richards Packaging Holdings (US) Inc. were converted to Units of the Fund on August 15, 2019. Exchangeable shares carry the right to vote at any meeting that Unitholders are entitled to vote on the same basis.

Distributions

Distributions are made monthly to Unitholders of record on the last business day of each month and paid on the 14th day of the following month. Monthly distributions in 2019 prior to the exchange were $1,198, and $1,235 post exchange, 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 14th day of the following month. Monthly distributions in 2019 prior to the exchange were $100, and $51 post exchange.

16. 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, 2019 was 0.29 [2018 – 0.57]. In addition, the fixed charge coverage ratio covenant was greater than 2.0 times at 4.70 [2018 – 4.48]. The minimum net worth covenant was $70,000 and the net worth was $147,666 [2018 – $137,147].

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.

December 31, 2019 and 2018 [Cdn$ thousands, unless otherwise noted]

17. RELATED PARTY TRANSACTIONS AND INVESTMENT IN JOINT VENTURE

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

	2019	2018
Leases of facilities from entities related to certain officers	**995**	1,020
Product purchases from Vision	**6,391**	6,790

Richards Packaging commitments for leases of facilities from entities related to officers of $1.3 million extend to 2022.

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

	2019	2018		2019	2018
Statement of financial position					
Assets			**Liabilities**		
Current assets	**1,288**	1,400	Current liabilities	**541**	547
Plant and equipment	**528**	599			
Total assets	**1,816**	1,999	**Net assets**	**1,275**	1,452
Statement of net income					
Revenue				**6,391**	6,790
Expenses				**6,529**	6,788
Net income				**(138)**	2

The decrease of $89 [2018 – $19 decrease] in Investment – Vision represents share of net loss of $69 [2018 – $1 income] increased by dividends received of $20 [2018 – $20].

18. 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 are measured at amortized cost, however, their carrying values approximate fair values with no amortization necessary. Term debt carrying value approximates fair value as it bears interest at rates comparable to current market rates. Associated financing fees are amortized over the term of the debt. Exchangeable shares fall under Level 1 of the fair value hierarchy and are recorded at the year-end trading price of Units into which they are convertible, with changes in value recorded through net income *[note 15]*.

Credit risk

Financial assets exposed to credit risk consist primarily of trade receivables arising from the sale of goods. Concentration of credit risk is limited due to the large number of customers and geographical dispersion. As at December 31, 2019, 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, 2019 is sufficient to cover impaired accounts *[note 8]*.

Inventory obsolescence risk

Richards Packaging is exposed to inventory obsolescence due to customer insolvency when they have unique packaging, maturing product life cycles for stock items and large purchases due to economic order quantities. The inventory provision is assessed on a specific item-by-item basis considering a number of factors including aging, recent sales and market demand. Management continually monitors over-aged inventory with a focus to realize value before obsolescence occurs. On a quarterly basis, the reserve for inventory obsolescence is reviewed by management. The reserve as at December 31, 2019 is sufficient to cover losses due to inventory obsolescence *[note 9]*.

Liquidity risk

The approach to managing liquidity risk is to ensure that sufficient funds are available to meet financial obligations as they come due *[notes 11, 19]*. This is achieved through a combination of cash balances *[note 7]*, availability of credit facilities *[note 15]*, surplus cash flow from operations, distribution policy and matching the maturities of financial assets and liabilities.

Interest rate risk

Exposure to interest rate risk arises due to variable interest rates on the revolving and term debt credit facilities. A 1.0% movement in interest rates would have impacted net income by $164.

Foreign currency risk

Exposure to U.S./Cdn. currency fluctuations arises on cross-border transactions and on the translation of cash flows of Richards US. A foreign currency gain of $92 has been recorded for the year ended December 31, 2019 [2018 – $191 loss] relating to cross-border transactions. A 1.0% movement in foreign currency rates would have impacted net income by $262.

December 31, 2019 and 2018 [Cdn$ thousands, unless otherwise noted]

19. CONTINGENCIES

In the ordinary course of business, Richards Packaging is involved in litigation and other claims. It is management's opinion that the ultimate outcome of these matters will not have a material adverse effect on the financial position or operating results.

20. ADDITIONAL CASH FLOW INFORMATION

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

	2019	**2018**
Accounts receivable	**1,484**	(3,851)
Inventory	**140**	(8,870)
Prepaid expenses and deposits	**496**	(1,617)
Accounts payable and accruals[a)]	**(3,425)**	7,393
	(1,305)	(6,945)

a) excludes impact of IRFS 16 leases implementation [note 3]

For the year ended December 31, 2019, the foreign exchange translation loss excluded from the above was $2,099 [2018 – $3,293 gain].