

# ***Q1* QUARTERLY REPORT**

## **Richards Packaging Income Fund**

Quarter ended March 31, 2016

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

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

*March 31, 2016*

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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.

First quarter performance was ahead of our 2016 outlook as total revenue was up 27.6% on the Healthmark acquisition and organic revenue growth and a U.S./Cdn.7.7¢ weakening of the dollar down to 73¢. Gross profit and EBITDA<sup>1</sup> as a percent of sales were 17.3% and 13.0% respectively, nicely ahead of levels in 2015. EBITDA was up \$2.9 million, or 44.6%, due to higher organic revenue and the translation impact of Richards US. Net income was up \$2.4 million, or 22.0¢ per Unit, mainly due to a higher profit from operations and a lower mark to market loss on exchangeable shares.

The \$3.1 million of free cash flow<sup>2</sup> generated in the first quarter was utilized to pay \$1.2 million for 2015 bonuses, repay \$1.0 million in debt, purchase \$0.3 million in Units and fund \$0.6 million for expansion and working capital requirements for revenue growth. Cash increased \$2.2 million to \$3.0 million at March 31st of which \$2.1 million will be utilized to settle taxes payable for the first quarter. The Fund's leverage was reduced to 1.4x from 1.5x at December 31, 2015.

The Fund paid monthly distributions of 7.35¢ per Unit, which represented an annualized yield of 4.2% on the March 31<sup>st</sup> closing price of \$21.00 per Unit and purchased 16,000 Units under the NCIB at \$18.05 per Unit. The payout ratio<sup>3</sup> for the first quarter was 45% down 26 percentage points from the same period in 2015 reflecting the increase in EBITDA. Beginning with the April distribution the new monthly payment will be 9.35¢ per Unit representing a 5.3% annualized yield on the March 31<sup>st</sup> closing price.

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

May 6, 2016

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

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

*May 6, 2016*

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*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, 2016, the 2015 Annual Report and the 2015 Annual Information Form dated March 3, 2016 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 2015 annual financial statements.*

#### **Fund Profile and Description of the Business**

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, to facilitate the acquisition of Richards Packaging Inc. Units are listed on the Toronto Stock Exchange under the symbol RPI.UN.

Richards Packaging serves a wide customer base that is comprised of approximately 13,300 regional food, beverage, cosmetic, specialty chemical, pharmaceutical and other companies. The primary source of revenue is from the distribution of over 5,000 different types of packaging containers and related components sourced from over 600 suppliers and its three dedicated manufacturing facilities. Sales from these manufacturing facilities represent approximately 10% of the total revenues of Richards Packaging (2015 – 13%). In addition to providing its customers with a wide range of packaging solutions, Richards Packaging provides design and development services and comprehensive logistics management through 17 sales offices and one agency location.

#### **Highlights and Selected Financial Information**

Highlights of the overall performance for the first quarter include:

- Revenue up \$15.6 mil., or 27.6%, due to the Healthmark acquisition and organic growth and 7.6% foreign exchange due to a 7.7¢ U.S./Cdn. Drop to 73¢,
- EBITDA<sup>1</sup> up \$2.9 mil., or 44.6%, at 13.0% of revenue,
- Current income taxes up \$0.9 mil. due to higher EBITDA,
- Net income increased \$2.4 mil. due primarily to higher EBITDA and lower mark-to-market loss on exchangeable shares offset by higher taxes, financial expenses and amortization,
- Non-cash working capital increased \$0.2 mil. due to a \$3.6 mil. increase in receivables and a \$0.5 mil. increase in prepaids offset by a \$1.0 mil. increase in payables and a \$2.8 mil. inventory reduction,
- Free cash flow<sup>2</sup> of \$3.1 mil. utilized to pay \$1.2 million for 2015 bonuses, repay \$1.0 million in debt, purchase \$0.3 million in Units and fund \$0.6 million for expansion and working capital requirements for revenue growth. Cash increased \$2.2 million to \$3.0 million required to settle taxes payable of \$2.1 million for the first quarter,
- Leverage ratio reduced to 1.4x from 1.5x at December 31, 2015,
- Distributable cash flow<sup>2</sup> up \$2.1 mil., or 17.6¢ per Unit, yielding a 45% payout ratio<sup>3</sup>, and
- Announced monthly distribution increase of 2.0¢ to 9.35¢ per Unit representing a 5.3% annualized return on the March 31<sup>st</sup> closing price of \$21.00 per Unit.

## Richards Packaging Income Fund

### MANAGEMENT'S DISCUSSION AND ANALYSIS

May 6, 2016

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This MD&A covers the three months ended March 31, 2016 (generally referred to in this MD&A as the "first quarter"). The following table sets out selected consolidated financial information:

(\$ thousands)	Qtr. 1	
	2016	2015
<b>Income Statement Data:</b>		
Revenue.....	71,879	56,329
EBITDA <sup>1</sup> .....	9,356	6,467
<i>Diluted per Unit</i> .....	80.0¢	55.2¢
Net income.....	3,300	897
<i>Diluted per Unit</i> .....	30.4¢	8.4¢
<b>Financial Position Data:</b>		
Working capital.....	58,221	46,550
Net operating assets.....	158,422	136,208
Bank debt.....	45,899	32,435
<i>Debt/EBITDA</i> .....	1.4	1.3
<b>Cash Flow Statement Data:</b>		
Distributions.....	2,608	2,604
<i>Diluted per Unit</i> .....	22.4¢	22.3¢
<i>Payout ratio</i> <sup>3</sup> .....	45%	71%
Unit purchases.....	289	—
Debt repayments.....	1,000	—

Distribution policy is set by the Trustees after giving careful consideration to the projected cash flows of the Fund, the long-term sustainability of the distribution level and the balance of risks and future prospects of the investments of the Fund. This policy is not set based upon net income due to various non-cash accounting charges that depress net income such as amortization, mark-to-market gains and losses on exchangeable shares and deferred income taxes. Factors considered when setting this level included the foreign exchange outlook, the current low interest and foreign exchange rates and the cash needs of operations.

### Review of Operations

Operations were approximately 45% in Canada and 55% in the United States ("Richards Packaging US"). Approximately one-third of sales are concentrated in Toronto, Montreal, Winnipeg and Vancouver and 40% in Los Angeles, Reno and Portland.

Revenue increased by \$15.6 million, or 27.6%, for the first quarter from the same period in 2015 due to the Healthmark acquisition and organic growth (\$11.3 million) along with the translation impact of Richards US, with the Canadian dollar weakening by 7.7¢ to U.S./Cdn.\$0.73 (\$4.3 million).

**Richards Packaging Income Fund**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

May 6, 2016

(\$ thousands)	Qtr. 1	
	2016	2015
<b>Revenue</b> .....	<b>71,879</b>	56,329
Cost of products sold.....	<b>59,477</b>	47,262
Gross profit.....	<b>12,402</b>	9,067
	17.3%	16.1%
Administrative expenses.....	<b>3,016</b>	2,538
Foreign currency loss .....	<b>30</b>	62
<b>EBITDA</b> <sup>1</sup> .....	<b>9,356</b>	6,467
	13.0%	11.5%
Amortization.....	<b>999</b>	694
Financial expenses.....	<b>640</b>	499
Exchangeable shares.....	<b>1,883</b>	2,681
Share of income - Vision.....	(7)	(27)
Income tax expense.....	<b>2,541</b>	1,723
<b>Net Income</b> .....	<b>3,300</b>	897

Cost of products sold (before amortization) increased by \$12.2 million, or 25.8%, for the first quarter, with the business performing at a 17.3% gross profit margin, from the same period in 2015 but up 0.4% against the second half of 2015 primarily due to increased volumes. 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.

General and administrative expenses (before amortization) for the first quarter increased \$0.5 million from the same period in 2015 mainly due to the Healthmark acquisition and the translation impact of expenses of Richards Packaging US.

The foreign currency loss 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 increased in the first quarter leading to the loss with the weakening Canadian dollar.

EBITDA<sup>1</sup> for the first quarter increased by \$2.9 million, or 44.6%, from the same period in 2015. As a percent of sales, EBITDA was at 13.0% for the first quarter, up 1.5% from the same period in 2015. Changes were a result of the factors referred to above.

Amortization of \$1.0 million for the first quarter was mainly comprised of \$0.7 million intangible assets amortization, which represents a charge for customer relationships and patents. Depreciation for capital assets was \$0.3 million, which annualized, is approximately Richards Packaging's normalized annual maintenance capital expenditure requirement.

Financial expenses were higher for the first quarter compared to the same period in 2015 due to higher term debt with the Healthmark acquisition and credit card fees.

## Richards Packaging Income Fund

### MANAGEMENT'S DISCUSSION AND ANALYSIS

May 6, 2016

Exchangeable shares mark-to-market loss reflects a unit price increase during the first quarter of \$1.82 to \$21.00 per Unit. Exchangeable share monthly distributions were 7.35¢ per share in the first quarter and were increased in March 2016 to 9.35¢ per share beginning with the April payment.

Income tax expense was \$0.8 higher for the first quarter compared to the same period in 2015 with current income tax increases mainly due to higher income offset by deferred tax decreases on higher intangible amortization.

Net income for the first quarter was \$3.3 million, which represented 30.4¢ per Unit on a diluted basis. A time-weighted average of 10,846,578 Units and 846,435 exchangeable shares, exchangeable into Units on a one-for-one basis, were outstanding throughout the first quarter.

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

(\$ thousands)

	Qtr. 1	
	2016	2015
Cash provided by operating activities.....	7,798	2,618
Working capital changes.....	150	3,007
Income tax payments.....	1,408	842
<b>EBITDA<sup>1</sup></b> .....	<b>9,356</b>	6,467
Interest.....	640	499
Current income tax.....	2,787	1,864
Maintenance capital.....	195	426
<b>Distributable cash flow<sup>2</sup></b> .....	<b>5,734</b>	3,678
<i>Diluted per Unit</i> .....	49.0¢	31.4¢
<b>Distributions</b> .....	<b>2,608</b>	2,604
<i>Diluted per Unit</i> .....	22.4¢	22.3¢
<i>Payout ratio<sup>3</sup></i> .....	45%	71%
<b>Free cash flow<sup>2</sup></b> .....	<b>3,126</b>	1,074
<b>Units outstanding (average)</b>		
<i>Diluted basis 000's</i> .....	<b>11,693</b>	11,720

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 (2015 – nil drawn) or free cash flow<sup>2</sup>.

Distributable cash flow<sup>2</sup> for the first quarter was \$2.1 million higher than in the same period in 2015. Overall the increase was attributed to increased EBITDA<sup>1</sup> and lower maintenance capital offset by higher interest and taxes. Current income taxes increased \$0.9 million from the same period in 2015 due to the increase in earnings.

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

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

*May 6, 2016*

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Free cash flow<sup>2</sup> of \$3.1 million together with \$0.8 million of cash on hand and the \$1.4 million increase in taxes payable was utilized to pay \$1.2 million for 2015 bonuses, repay \$1.0 million in debt, purchase \$0.3 million in Units and fund \$0.6 million for expansion and working capital requirements for revenue growth. As a result, cash increased \$2.2 million to \$3.0 million which will be required to settle taxes payable of \$2.1 million in the second quarter.

Monthly distributions paid of 7.35¢ per Unit represent a payout ratio<sup>3</sup> of 71%. Monthly distributions paid during the first quarter of 7.35¢ per Unit represent an annual yield of 4.4% on a \$20.00 price per Unit at March 31, 2016 or 5.6% at the April distribution rate of 9.35¢ per Unit.

#### **Liquidity and Financing**

##### ***Cash flows from operating activities***

Cash flow from operating activities for the first quarter was \$7.8 million, up \$5.2 million over the same period in 2015, primarily due to a higher profit from operations and a lower investment in working capital. During the first quarter, working capital increased by \$0.2 million on higher receivables of \$3.5 million, which reflected the same past due profile as at year end, and higher prepaids of \$0.5 million offset by lower payables of \$1.0 million and lower inventory of \$2.8 million reflecting the unwinding of the seasonally high year-end balance.

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 \$2.6 million, including those declared for December 2015, with \$1.1 million declared for March, which was paid April 14<sup>th</sup>.

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

On March 14, 2016, the Fund renewed the normal course issuer bid to purchase up to 200,000 Units prior to March 13, 2017. During the first quarter, 16,000 Units were purchased at an average price of \$18.05 per Unit (2015 – nil).

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

The current income tax expense for the first quarter was \$2.8 million, which includes \$0.1 million of withholding taxes on dividends received from Richards Packaging (2015 – \$0.1 million).

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

Maintenance capital expenditures for the first quarter were \$0.2 million (2015 – \$0.4 million) mainly comprised of refurbishment of moulds for replacement packaging and computer equipment upgrades. Expansion capital expenditures for the first quarter were \$0.6 million (2015 – \$0.1 million) primarily for the addition of a manufacturing equipment for new customer programs.

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

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

*May 6, 2016*

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

Credit facilities include a \$46.0 million term loan (2015 – \$32.5 million) with maturity on September 30, 2017 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 1.25% to 1.80% or at a prime rate plus a premium of 0.25% to 0.80%. During the first quarter, \$1.0 million was repaid (2015 – nil).

On October 1, 2015, the term credit facility was increased by \$15 million to fund the acquisition of Healthmark as a cost of \$0.1 million and \$1.8 million was drawn on the revolving credit facility under the same terms and conditions. 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 EBITDA<sup>1</sup>. As at March 31, 2016, our leverage ratio was 1.4 times (2015 – 1.3) down from 1.5 at December 31, 2015. Combined with cash flow from operations, management believes that adequate financing will be available for the foreseeable future<sup>4</sup>.

#### **Outlook<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 2016.

Revenue performance for the first quarter was above the expected 1-3% growth band and is expected to continue for the second quarter. The impact of exchange translation is expected to be \$2 million for the second quarter at current exchange rates of U.S./Cdn.\$0.77 versus \$0.81 for the same period in 2015. The sensitivity is \$0.5 million for every 1¢ movement in the exchange rate.

EBITDA<sup>1</sup> for the first quarter was \$9.4 million is expected to track above 12% of revenue for the second quarter. The impact of exchange translation is expected to be \$0.3 million for the second quarter at current exchange rates. The sensitivity is \$0.1 million for every 1¢ movement.

Current income tax expense is expected to increase with increased EBITDA and the impact of exchange translation is expected to be \$0.1 million for the second quarter at current exchange rates.

Maintenance capital will continue to be funded by cash flow from operations and is expected to be \$1.0 million in 2016.

Distributable cash flow<sup>2</sup> sensitivity on annual basis to foreign currency fluctuations is \$0.1 million for every U.S./Cdn. 1¢ movement.

Cash on hand of \$3.0 million will be partially utilized in order to pay the income tax payable as of March 31<sup>st</sup> of \$2.1 million.

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

## **Richards Packaging Income Fund**

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

May 6, 2016

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#### **Risks and Uncertainties**

Investment in Units involves risks inherent in the ordinary course of business including: 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 2015 Annual Information Form dated March 3, 2016. To management's knowledge, no significant changes to these risks and uncertainties have occurred in the first quarter of 2016.

#### **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, 2016 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 2016, relative to December 31, 2015. 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 2015 Annual Report.

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

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

#### **Additional Information**

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)

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*1 Management defines EBITDA as earnings before amortization, financial expenses, unrealized losses and dividends on exchangeable shares, share of income - Vision and taxes. EBITDA is the same as profit from operations as outlined in the annual financial statements after adding back amortization. Management believes that in addition to net income, EBITDA is a useful supplemental measure for investors of earnings available for distribution prior to debt service, capital expenditures and taxes. Management uses this measure as a starting point in the determination of earnings available for distribution to Unitholders and exchangeable shareholders. In addition, EBITDA is 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. EBITDA does not have a standardized meaning prescribed by IFRS and therefore the method of calculating EBITDA may not be comparable to similar measures presented by other companies.*

## **Richards Packaging Income Fund**

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

May 6, 2016

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- 2 *Management defines distributable cash flow, in accordance with Richards Packaging's credit agreement, as EBITDA less interest, cash income tax expense, maintenance capital expenditures. 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. 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 customer and supplier relationships, the extent and duration of the worldwide recession and the impact on order volumes and pricing, competition in the industry, inventory obsolescence, trade risks in respect of foreign suppliers, the ability to finance additional acquisitions and to successfully integrate the acquired businesses, fluctuations in raw material prices, fluctuations in foreign exchange and interest rates, liability claims, reliance on key personnel, compliance with environmental, trade and other laws, 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. Neither the Fund nor Richards Packaging assumes any obligation to publicly update or revise any such assumptions or any of the forward-looking information contained herein to reflect subsequent information, events, developments or changes in risk factors.*

#### **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>2016</b>	<b>2015</b>
<b>Revenue</b>		<b>71,879</b>	56,329
Cost of products sold		<b>60,450</b>	47,940
Administrative expenses		<b>3,042</b>	2,554
Foreign currency loss		<b>30</b>	62
<b>Profit from operations</b>		<b>8,357</b>	5,773
Financial expenses		<b>640</b>	499
Exchangeable shares			
Mark-to-market loss		<b>1,651</b>	2,436
Distributions		<b>232</b>	245
Share of income - Vision		<b>(7)</b>	(27)
<b>Profit before income taxes</b>		<b>5,841</b>	2,620
Income tax expense (income)			
Current taxes	3	<b>2,787</b>	1,864
Deferred taxes	3	<b>(246)</b>	(141)
		<b>2,541</b>	1,723
<b>Net income for the period</b>		<b>3,300</b>	897
Basic and diluted income per Unit	4	<b>30.4¢</b>	8.4¢
<b>Other comprehensive income (loss)</b>			
<i>(subsequently recyclable to Net income)</i>			
Currency translation adjustment - Richards Packaging US		<b>(5,744)</b>	6,653
<b>Comprehensive income (loss) for the period</b>		<b>(2,444)</b>	7,550

*See accompanying notes*

*Wayne McLeod*  
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>	Notes	Mar. 31		Dec. 31	
		2016	2015	2015	2014
<b>Current Assets</b>					
Cash		2,982	266	794	1,127
Accounts receivable		32,824	26,297	30,281	23,262
Inventory		54,451	43,949	59,439	42,892
Prepaid expenses and deposits		2,641	3,000	2,267	2,211
		<b>92,898</b>	73,512	<b>92,781</b>	69,492
<b>Current Liabilities (excluding debt)</b>					
Accounts payable and accruals		(30,433)	(22,731)	(30,278)	(23,383)
Income tax payable	3	(2,119)	(2,363)	(740)	(1,341)
Distributions payable		(1,103)	(868)	(870)	(865)
Due to previous shareholder		(1,022)	(1,000)	(1,091)	(914)
		<b>(34,677)</b>	(26,962)	<b>(32,979)</b>	(26,503)
<b>WORKING CAPITAL</b>		<b>58,221</b>	46,550	<b>59,802</b>	42,989
<b>Long-term Assets</b>					
Plant and equipment		4,122	3,590	3,743	3,190
Investment - Vision		719	655	712	628
Intangible assets		19,080	11,200	20,376	10,688
Goodwill		84,905	78,885	87,613	75,514
		<b>108,826</b>	94,330	<b>112,444</b>	90,020
<b>Long-term Liabilities (excluding debt)</b>					
Contingent consideration		(2,000)	—	(2,000)	—
Deferred income taxes	3	(6,625)	(4,672)	(7,149)	(4,435)
<b>NET OPERATING ASSETS</b>		<b>158,422</b>	136,208	<b>163,097</b>	128,574
<b>Debt</b>					
Term debt		45,899	32,435	46,883	32,428
Exchangeable shares - current	4	17,713	16,029	16,062	13,593
		<b>63,612</b>	48,464	<b>62,945</b>	46,021
<b>Equity</b>					
Unitholders' capital	4	44,930	52,431	47,828	54,790
Retained earnings		38,270	25,362	34,970	24,465
Accumulated other comprehensive income		11,610	9,951	17,354	3,298
		<b>94,810</b>	87,744	<b>100,152</b>	82,553
<b>CAPITAL</b>		<b>158,422</b>	136,208	<b>163,097</b>	128,574

*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' capital</b>	<b>Retained earnings</b>	<b>AOCI<sup>a)</sup></b>	<b>Equity</b>
<b>December 31, 2014</b>		54,790	24,465	3,298	82,553
Comprehensive income			897	6,653	7,550
Distributions		(2,359)			(2,359)
<b>March 31, 2015</b>		52,431	25,362	9,951	87,744
<hr/>					
<b>December 31, 2015</b>		<b>47,828</b>	<b>34,970</b>	<b>17,354</b>	<b>100,152</b>
Comprehensive income (loss)			<b>3,300</b>	<b>(5,744)</b>	<b>(2,444)</b>
Purchased for cancellation, net		<b>(289)</b>			<b>(289)</b>
Distributions		<b>(2,609)</b>			<b>(2,609)</b>
<b>March 31, 2016</b>		<b>44,930</b>	<b>38,270</b>	<b>11,610</b>	<b>94,810</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]*

<i>Cdn\$ thousands</i>	<b>Notes</b>	<b>2016</b>	<b>2015</b>
<b>OPERATING ACTIVITIES</b>			
Profit from operations		<b>8,357</b>	5,773
Add items not involving cash			
Plant and equipment depreciation		<b>323</b>	312
Intangible assets amortization		<b>676</b>	382
Income taxes payments	3	<b>(1,408)</b>	(842)
Changes in non-cash working capital	5	<b>(150)</b>	(3,007)
<b>Cash provided by operating activities</b>		<b>7,798</b>	2,618
<b>INVESTING ACTIVITIES</b>			
Additions to plant and equipment		<b>(792)</b>	(546)
<b>Cash used in investing activities</b>		<b>(792)</b>	(546)
<b>FINANCING ACTIVITIES</b>			
Repayment of term debt		<b>(1,000)</b>	—
Financial expenses paid		<b>(641)</b>	(486)
Purchase of Fund units for cancellation		<b>(289)</b>	—
Distributions paid to Exchangeable Shareholders		<b>(232)</b>	(245)
Distributions paid to Unitholders		<b>(2,376)</b>	(2,359)
<b>Cash used in financing activities</b>		<b>(4,538)</b>	(3,090)
<b>Net cash flow for the period</b>		<b>2,468</b>	(1,018)
Cash, beginning of period		<b>794</b>	1,127
Foreign exchange effect		<b>(280)</b>	157
<b>Cash, end of period</b>		<b>2,982</b>	266

*See accompanying notes*

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

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

*Unaudited*

*March 31, 2016*

*[Cdn\$ thousands]*

#### **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. 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 2015 audited annual financial statements. The accounting policies used in the preparation of these condensed interim financial statements are consistent with the 2015 audited annual financial statements.

#### **3. INCOME TAXES**

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

	<b>2016</b>	<b>2015</b>
Profit from operations	8,357	5,773
Financial expenses	(640)	(499)
<b>Income subject to income taxes</b>	<b>7,717</b>	<b>5,274</b>
Statutory tax rate	26.7%	26.5%
Income tax expense at statutory tax rate	<b>2,061</b>	1,397
<b>Deferred income tax</b>	<b>246</b>	141
Current period adjustments		
Foreign tax differential	<b>(234)</b>	(208)
Foreign rate differential	<b>672</b>	484
Withholding tax	<b>113</b>	110
Other items	<b>(71)</b>	(60)
<b>Current income taxes</b>	<b>2,787</b>	1,864

**Richards Packaging Income Fund**

**NOTES TO INTERIM FINANCIAL STATEMENTS**

*Unaudited*

March 31, 2016

[Cdn\$ thousands]

**4. UNITS AND EXCHANGEABLE SHARES**

<i>Number outstanding</i>	<b>Units basic</b>	<b>Weighted average</b>	<b>Exchangeable Shares</b>	<b>Units diluted</b>	<b>Weighted average</b>
December 31, 2014	10,695,878	10,700,972	1,024,435	11,720,313	11,725,407
Units purchased	—			—	
March 31, 2015	10,695,878	10,702,778	1,024,435	11,720,313	11,720,313
<b>December 31, 2015</b>	<b>10,862,578</b>	<b>10,807,570</b>	<b>846,435</b>	<b>11,709,013</b>	<b>11,719,353</b>
Units purchased	(16,000)			(16,000)	
<b>March 31, 2016</b>	<b>10,846,578</b>	<b>10,846,578</b>	<b>846,435</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, 2016 of \$1.82 to \$21.00 per Unit.

**5. ADDITIONAL CASH FLOW INFORMATION**

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

	<b>2016</b>	<b>2015</b>
Accounts receivable	(3,553)	(1,915)
Inventory	2,847	1,235
Prepaid expenses and deposits	(466)	(658)
Accounts payable and accruals	1,022	(1,669)
	<b>(150)</b>	<b>(3,007)</b>

Total foreign exchange translation impact excluded from the above was \$2,376 loss [2015 – \$2,596 gain].