

# **Q2 QUARTERLY REPORT**

## **Richards Packaging Income Fund**

Quarter ended June 30, 2013

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

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

*August 1, 2013*

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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.

Second quarter performance reflected a rebound from a soft first quarter, with total revenue up 3.6% due to 2.9% organic revenue growth and a U.S./Cdn. 1¢ weakening of the dollar. EBITDA<sup>1</sup> was up \$0.2 million, or 3.1%, due to higher sales. Gross profit and EBITDA as a percent of sales were consistent with last year at 15.8% and 11.5% respectively. Net income was down \$1.4 million, or 13¢ per Unit, mainly due to the lower mark-to-market gain on the exchangeable shares.

First half results reflected the unwinding of the economic recovery that began during the third quarter of 2012. Total revenue was up 1.0% with organic revenue growth of 0.5% in addition to a revenue increase due to a U.S./Cdn. 1¢ weakening of the dollar. EBITDA<sup>1</sup> was down \$0.3 million, or 2.9%, due to price degradation in select large accounts. Net income was flat when compared to the previous year as the higher taxes and patent defense legal costs were offset by lower financial expenses and a lower mark-to-market loss on exchangeable shares.

The \$1.4 million of free cash flow<sup>2</sup> generated in the second quarter was utilized to pay down \$0.5 million of term debt, buy back \$0.2 million of Units, invest in \$0.1 million of expansion capital and to cover working capital needs. A further \$1.0 million was utilized to pay down term debt with the proceeds from inventory reduction, representing the sale of the remaining 30% of the 2012 \$4 million buildup. Although the cash on hand at June 30<sup>th</sup> appears to be unusually high, \$0.6 million has been set aside to pay Canadian taxes and \$1.0 million to meet July working capital needs.

With the distributions no longer eligible for interest deductibility we continue to utilize loss carry forwards to partially shield Canadian taxes and to pay out distributions as a full return of capital. Loss carry forwards are being recognized on a straight line basis for 2013.

The Fund paid monthly distributions of 6.55¢ per Unit during the second quarter, which represented an annualized yield of 8.6% on the June 28<sup>th</sup> closing price of \$9.10 per Unit. The payout ratio<sup>3</sup> for the second quarter was 62%. During the second quarter 19,500 Units were purchased for an average price of \$9.01.

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

August 1, 2013

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

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

*August 1, 2013*

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*This management's discussion and analysis ("MD&A") of Richards Packaging Income Fund for the second quarter should be read in conjunction with the attached condensed interim financial statements dated June 30, 2013, the first quarter report dated May 10, 2013, the 2012 Annual Report and the 2012 Annual Information Form dated March 7, 2013 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 2012 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 11,300 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 15% of the total revenues of Richards Packaging. 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 second quarter include:

- Revenue up \$1.8 mil., or 3.6%, mainly due to organic growth across the board,
- EBITDA<sup>1</sup> up \$0.2 mil., or 3.1%, at 11.5% of sales similar to the previous year,
- Current income taxes up \$0.7 mil. due to higher US taxes, Richards Canada being taxable for the first time and withholding taxes,
- Net income decreased \$1.4 mil. due primarily to a lower mark-to-market gain on exchangeable shares,
- Non-cash working capital decreased \$1.1 mil. due to a \$1.7 mil. inventory reduction with \$1.0 mil. used to pay down term debt, mainly offset by a \$0.9 mil. decrease in payables largely associated with the patent defense legal costs,
- Free cash flow<sup>2</sup> of \$1.4 mil. was deployed to repay \$0.5 mil. of term debt, purchase \$0.2 mil. of Units, invest \$0.1 mil. in expansion capital and invest \$0.6 mil. in working capital,
- Distributable cash flow<sup>2</sup> decreased by \$0.3 mil., or 2.0¢ per Unit, resulting in a 62% payout ratio<sup>3</sup>,
- Normal course issuer bid purchases of \$0.2 mil., or 19,500 Units, at an average price of \$9.01 per unit, and
- Monthly distributions of 6.55¢ per Unit paid representing an 8.6% annualized return on the June 28<sup>th</sup> closing price of \$9.10 per Unit.

## Richards Packaging Income Fund

### MANAGEMENT'S DISCUSSION AND ANALYSIS

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This MD&A covers the three and six months ended June 30, 2013 generally referred to in this MD&A as the "second quarter" and the "first half", respectively. The following table sets out selected consolidated financial information:

(\$ thousands)	Qtr. 2		Six months	
	2013	2012	2013	2012
<b>INCOME STATEMENT DATA:</b>				
Revenue.....	<b>50,973</b>	49,219	<b>98,388</b>	97,441
EBITDA <sup>1</sup> .....	<b>5,841</b>	5,665	<b>10,977</b>	11,310
<i>Diluted per Unit</i> .....	<i>49.8¢</i>	<i>48.0¢</i>	<i>93.5¢</i>	<i>95.8¢</i>
Net income.....	<b>2,247</b>	3,695	<b>3,010</b>	2,960
<i>Diluted per Unit</i> .....	<i>19.5¢</i>	<i>19.8¢</i>	<i>28.2¢</i>	<i>27.6¢</i>
<b>FINANCIAL POSITION DATA:</b>				
Working capital.....	<b>41,741</b>	41,990		
Net operating assets.....	<b>128,196</b>	132,636		
Term debt.....	<b>39,500</b>	43,500		
<i>Debt/EBITDA</i> .....	<i>1.9</i>	<i>2.1</i>		
<b>CASH FLOW STATEMENT DATA:</b>				
Distributions.....	<b>2,309</b>	2,320	<b>4,620</b>	4,639
<i>Diluted per Unit</i> .....	<i>19.7¢</i>	<i>19.7¢</i>	<i>39.3¢</i>	<i>39.3¢</i>
<i>Payout ratio</i> <sup>3</sup> .....	<i>62%</i>	<i>58%</i>	<i>64%</i>	<i>57%</i>
Unit purchases.....	<b>176</b>	49	<b>426</b>	49
Debt repayment.....	<b>1,500</b>	500	<b>2,000</b>	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 Income Trust tax, the current low interest rates and the cash needs of operations.

### Review of Operations

Operations were approximately half in Canada and half in the United States ("Richards Packaging US") similar to performance in 2012. Approximately one-third of sales are concentrated in Toronto, Montreal and Vancouver and one-third in Los Angeles, Reno and Portland.

Revenue increased by \$1.8 million, or 3.6%, for the second quarter from the same period in 2012 due to organic growth of 2.9% (\$1.4 million) and the translation impact of Richards US, with the Canadian dollar weakening by 1.2¢ to U.S./Cdn.\$0.98 (\$0.4 million). Revenue increased by \$0.9

## Richards Packaging Income Fund

### MANAGEMENT'S DISCUSSION AND ANALYSIS

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million, or 1.0%, for the first half from the same period in 2012 due to organic growth of 0.5% (\$0.4 million) and the translation impact of Richards US, with the Canadian dollar weakening by 1.0¢ to U.S./Cdn.\$0.98 (\$0.5 million).

(\$ thousands)	Qtr. 2		Six months	
	2013	2012	2013	2012
<b>Revenue</b> .....	<b>50,973</b>	49,219	<b>98,388</b>	97,441
Cost of products sold <sup>a)</sup> .....	<b>42,894</b>	41,240	<b>82,880</b>	81,518
Gross profit.....	<b>8,079</b>	7,979	<b>15,508</b>	15,923
	<i>15.8%</i>	<i>16.2%</i>	<i>15.8%</i>	<i>16.3%</i>
Administrative expenses <sup>a)</sup> .....	<b>2,250</b>	2,274	<b>4,515</b>	4,579
Foreign currency loss (gain).....	<b>(12)</b>	40	<b>16</b>	34
<b>EBITDA</b> <sup>1</sup> .....	<b>5,841</b>	5,665	<b>10,977</b>	11,310
	<i>11.5%</i>	<i>11.5%</i>	<i>11.2%</i>	<i>11.6%</i>
Amortization.....	<b>1,934</b>	1,921	<b>3,846</b>	3,816
Patent defense costs.....	<b>267</b>	6	<b>699</b>	23
Financial expenses.....	<b>525</b>	726	<b>1,025</b>	1,375
Exchangeable shares loss (gain).....	<b>41</b>	(1,358)	<b>1,023</b>	1,837
Share of loss (income) - Vision.....	<b>(107)</b>	6	<b>(142)</b>	9
Income tax expense.....	<b>934</b>	669	<b>1,516</b>	1,290
<b>Net Income</b> .....	<b>2,247</b>	3,695	<b>3,010</b>	2,960

a) before amortization

Cost of products sold for the second quarter and the first half increased by \$1.7 million, or 4.0%, and by \$1.4 million, or 1.7%, from the same periods in 2012, respectively. Gross profit margins were similar to the first quarter levels at 15.8% for the second quarter. Foreign exchange, ocean freight and price degradation in select large accounts in response to increasing competitive threats continue to keep margins down below 16%. Resins price volatility 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 for the second quarter and first half were consistent with the same periods in 2012.

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.

EBITDA<sup>1</sup> for the second quarter and first half increased by \$0.2 million, or 3.1%, and decreased by \$0.3 million, or 2.9%, from the same periods in 2012, respectively. As a percent of sales, EBITDA was at 11.5% for the second quarter and 11.2% for the first half, similar to the same periods in 2012. Changes were a result of the factors referred to above.

Amortization of \$1.9 million for the second quarter and \$3.8 million for the first half were mainly comprised of \$1.6 million and \$3.2 million respectively for intangibles assets amortization, which

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

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

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represents a charge for customer relationships and patents. Depreciation for capital assets was \$0.3 million and \$0.6 million for the second quarter and the first half respectively, which annualized, is approximately Richards Packaging's normalized annual maintenance capital expenditure requirement.

Patent defense legal costs relate to court trial costs incurred to establish infringement on our Dispill patent, trademark and copyright. The court proceeding was completed on April 9<sup>th</sup> with additional legal costs of \$0.3 million recognized in the second quarter. The judge will likely render his decision during the third quarter<sup>4</sup>.

Financial expenses were lower for the second quarter compared to the same period in 2012 mainly due to 1.2% lower interest rates and \$4.0 million less term debt.

Exchangeable shares mark-to-market gain reflects a unit price decrease during the second quarter to \$9.10 per Unit but a unit price increase of \$0.56 for the first half. Exchangeable shares distributions remained at \$0.2 million per quarter.

Income tax expense increased \$0.3 million for the second quarter and \$0.2 million for the first half compared to the same periods in 2012, respectively, mainly due to higher income in Richards Packaging US, the commencement of Canadian taxes and withholding taxes, offset by a deferred tax decrease.

Net income for the second quarter was \$2.2 million and \$3.0 million for the first half, which represented 19.5¢ and 28.2¢ per Unit on a diluted basis, respectively. A time-weighted average of 10,681,509 Units and 1,059,043 exchangeable shares, exchangeable into Units on a one-for-one basis, were outstanding for the first half.

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

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

Distributable cash flow<sup>2</sup> for the second quarter and first half was \$0.3 million and \$0.9 million lower than in the same periods in 2012. Overall the decrease was mainly due to higher cash income taxes. Cash income taxes for the second quarter increased \$0.7 million from the same period in 2012, due to the increase in earnings in Richards Packaging US and the commencement of Canadian taxes.

Free cash flow<sup>2</sup> of \$1.4 million for the second quarter and \$2.6 million for the first half was deployed to repay \$0.5 million and \$1.0 million of term debt, to purchase \$0.2 million and \$0.4 million of Units, and fund patent defense legal costs, expansion and working capital, respectively. Inventory reduction of \$1.7 million in the second quarter was used to repay an additional \$1.0 million of term debt.

Monthly distributions for the first half at 6.55¢ per Unit, represents an annual yield of 8.6% on a \$9.10 price per Unit at June 28, 2013 and a payout ratio<sup>3</sup> of 62%.

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(\$ thousands)	Qtr. 2		Six months	
	2013	2012	2013	2012
Cash provided by operating activities.....	4,981	2,652	10,166	3,968
Working capital changes.....	(1,052)	2,163	(1,673)	6,446
Income taxes payments.....	1,645	844	1,785	873
Patent defense legal costs.....	267	6	699	896
<b>EBITDA</b> <sup>1</sup>	<b>5,841</b>	5,665	<b>10,977</b>	11,310
Interest <sup>(a)</sup> .....	525	626	1,025	1,275
Current income tax.....	1,404	742	2,413	1,400
Maintenance capital.....	185	314	356	560
<b>Distributable cash flow</b> <sup>2</sup>	<b>3,727</b>	3,983	<b>7,183</b>	8,075
<i>Diluted per Unit</i> .....	<i>31.8¢</i>	<i>33.8¢</i>	<i>61.2¢</i>	<i>68.4¢</i>
<b>Distributions</b> .....	<b>2,309</b>	2,320	<b>4,620</b>	4,639
<i>Diluted per Unit</i> .....	<i>19.7¢</i>	<i>19.7¢</i>	<i>39.3¢</i>	<i>39.3¢</i>
<i>Payout ratio</i> <sup>3</sup> .....	<i>62%</i>	<i>58%</i>	<i>64%</i>	<i>57%</i>
<b>Free cash flow</b> <sup>2</sup>	<b>1,418</b>	1,663	<b>2,563</b>	3,436
<b>Units outstanding (average)</b>				
<i>Diluted basis 000's</i> .....	<b>11,734</b>	11,801	<b>11,741</b>	11,802

a) financial expenses less bank refinancing fees

## Liquidity and Financing

### Cash flows from operating activities

Cash flow from operating activities for the second quarter was \$5.0 million, up \$2.3 million over the same period in 2012, primarily due to a \$3.2 million decreased investment in working capital in line with tepid growth. For the first half, cash flow from operating activities was \$10.2 million, up \$6.2 million primarily due to the unwinding of the \$6.4 million buildup of working capital in 2012. During the second quarter, working capital decreased mainly on lower inventory of \$1.7 million, offset by lower accounts payables of \$0.9 million. For the first half, inventory decreased \$4.2 million offset by higher receivables of \$1.9 million which reflect the same past due profile as at year end. Accounts payables were also lower by \$0.5 million to reflect the payment of 2012 bonuses.

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. In recognition of impending higher interest rates and taxes, the majority of the free cash flow<sup>2</sup> was diverted to repay term debt. Actual distributions paid during the second quarter, including those declared for March 2013, were \$2.1 million with \$0.7 million declared for June, which was paid July 13<sup>th</sup>.

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

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

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

On March 13, 2013, the Fund renewed the normal course issuer bid to purchase up to 200,000 Units prior to March 12, 2014. During the second quarter, 19,500 Units (2012 – 5,600) were purchased at an average price of \$9.01 per Unit (2012 – \$8.75) and during the first half, 47,800 Units were purchased at an average price of \$8.91 per Unit.

#### ***Cash income taxes***

Cash income tax expense was \$1.4 million for the second quarter and \$2.4 million for the first half, representing current income tax net of the utilization of the \$0.2 million loss carry forward deferred tax balance as at December 31, 2012 which is being recognized on a straight line basis for 2013.

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

Maintenance capital expenditures for the second quarter were \$0.2 million and \$0.4 million for the first half. Expenditures classified as maintenance capital are mainly comprised of new moulds or refurbishment of moulds for replacement packaging driven by customer marketing programs. Expansion capital expenditures for the first half were \$0.2 million primarily for the addition of a blow molding machine.

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

Richards Packaging's credit facilities include a \$39.5 million term loan (2012 – \$43.5 million) with maturity on May 31, 2015 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 1.55% to 1.80%.

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 EBITDA<sup>1</sup>. As at June 30, 2013, our leverage ratio was 1.85. Surplus distributable cash flow<sup>2</sup> will continue to be utilized to repay term debt to maintain the leverage ratio at acceptable levels with any excess to be used to purchase Units. 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 2013.

Revenue growth for the second quarter exceeded expectations but is expected to return to the long term industry average of 1-3% for the third quarter. The impact of exchange translation is expected to increase revenue by \$0.7 million for the third quarter at current exchange rates of U.S./Cdn.\$0.97.

EBITDA<sup>1</sup> for the second quarter was \$5.8 million, up \$0.2 million against the same periods in 2012 and continues to track at levels exceeding 11% of revenue. The impact of exchange translation is



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

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

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expected to increase EBITDA by \$0.1 million for the third quarter at current exchange rates of U.S./Cdn.\$0.97.

Cash income tax expense will be \$0.4 million higher quarterly due to the impact associated with the commencement of Canadian taxes and withholding taxes. Withholding taxes are expected to be \$0.3 million in 2013. Distributable cash flow<sup>2</sup> from Richards Packaging US and Richards Canada's current tax profile will allow for a full return of capital to Unitholders for 2013.

Maintenance capital will continue to be funded by cash flow from operations and is expected to be \$0.8 million in 2013.

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.

#### **Risks and Uncertainties**

Investment in Units involves risks inherent in the ordinary course of business of Richards Packaging 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 2012 Annual Information Form dated March 7, 2013. To management's knowledge, no significant changes to these risks and uncertainties have occurred in the first half of 2013.

#### **Critical Accounting Estimates**

The preparation of the consolidated financial statements in conformity with IFRS requires the Fund to make estimates and assumptions which affect the reported, and disclosure of, amounts for assets and liabilities as at June 30, 2013 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 half of 2013, relative to December 31, 2012. 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 2012 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 half that have materially affected, or are reasonably likely to materially affect, its internal controls over financial reporting.

## Richards Packaging Income Fund

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#### 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)

- <sup>1</sup> Management defines EBITDA as earnings before amortization, financial expenses, patent defense legal costs, unrealized losses (gains) and dividends on exchangeable shares, share of loss (income) – Vision and taxes. EBITDA is the same as profit from operations as outlined in the interim financial statements after adding back amortization and patent defense legal costs. 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 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.
- <sup>2</sup> Management defines distributable cash flow, in accordance with Richards Packaging's credit agreement, as EBITDA less interest, cash income tax expense, and 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.
- <sup>3</sup> 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.
- <sup>4</sup> 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

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

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*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 and six months ended June 30*

*[Consolidated]*

<i>Cdn\$ thousands</i>	<b>Notes</b>	<b>Three months</b>		<b>Six months</b>	
		<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
<b>Revenue</b>		<b>50,973</b>	49,219	<b>98,388</b>	97,441
Cost of products sold		<b>44,808</b>	43,136	<b>86,689</b>	85,286
Administrative expenses		<b>2,270</b>	2,299	<b>4,552</b>	4,627
Foreign currency loss (gain)		<b>(12)</b>	40	<b>16</b>	34
Patent defense legal costs	5	<b>267</b>	6	<b>699</b>	23
<b>Profit from operations</b>		<b>3,640</b>	3,738	<b>6,432</b>	7,471
Financial expenses		<b>525</b>	726	<b>1,025</b>	1,375
Exchangeable shares					
Mark-to-market loss (gain)		<b>(169)</b>	(1,567)	<b>604</b>	1,420
Distributions		<b>210</b>	209	<b>419</b>	417
Share of loss (income) - Vision		<b>(107)</b>	6	<b>(142)</b>	9
<b>Income before income taxes</b>		<b>3,181</b>	4,364	<b>4,526</b>	4,250
Income tax expense (income)					
Current taxes	3	<b>1,404</b>	742	<b>2,413</b>	1,400
Deferred taxes	3	<b>(470)</b>	(73)	<b>(897)</b>	(110)
		<b>934</b>	669	<b>1,516</b>	1,290
<b>Net income for the period</b>		<b>2,247</b>	3,695	<b>3,010</b>	2,960
Basic income per Unit	4	<b>21.0¢</b>	34.4¢	<b>28.2¢</b>	27.6¢
Diluted income per Unit <sup>a)</sup>	4	<b>19.5¢</b>	19.8¢	<b>28.2¢</b>	27.6¢
<b>Other comprehensive income</b>					
Richards Packaging US					
Currency translation adjustment		<b>2,289</b>	1,201	<b>3,619</b>	179
<b>Comprehensive income for the period</b>		<b>4,536</b>	4,896	<b>6,629</b>	3,139

a) For the 2012 and 2013 six month periods, the calculation of the diluted income per Unit would yield \$0.34 and \$0.41, an anti-dilutive result. In accordance with IFRS, anti-dilutive results revert to the basic income per Unit values.

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 June 30 and December 31*

*[Consolidated]*

<i>Cdn\$ thousands</i>	<b>Notes</b>	<b>June 30</b>		<b>Dec. 31</b>	
		<b>2013</b>	<b>2012</b>	<b>2012</b>	<b>2011</b>
<b>Current Assets</b>					
Cash and cash equivalents		2,634	226	893	3,874
Accounts receivable		22,153	22,202	19,718	19,081
Inventory		37,404	38,370	40,379	37,209
Prepaid expenses and deposits		2,440	3,219	2,316	2,138
		<b>64,631</b>	64,017	<b>63,306</b>	62,302
<b>Current Liabilities (excluding debt)</b>					
Accounts payable and accruals		(20,729)	(20,207)	(20,764)	(21,303)
Income tax payable	3	(563)	(244)	65	283
Distributions payable		(769)	(773)	(771)	(773)
Due to previous shareholder		(829)	(803)	(784)	(802)
		<b>(22,890)</b>	(22,027)	<b>(22,254)</b>	(22,595)
<b>WORKING CAPITAL</b>					
		<b>41,741</b>	41,990	<b>41,052</b>	39,707
<b>Long-term Assets</b>					
Plant and equipment		3,578	3,654	3,564	3,606
Investment - Vision		814	564	672	576
Intangible assets		15,620	21,791	18,285	24,990
Goodwill		72,121	71,153	70,367	71,088
		<b>92,133</b>	97,162	<b>92,888</b>	100,260
<b>Long-term Liabilities (excluding debt)</b>					
Deferred income taxes	3	(5,678)	(6,516)	(6,353)	(6,619)
<b>NET OPERATING ASSETS</b>					
		<b>128,196</b>	132,636	<b>127,587</b>	133,348
<b>Debt</b>					
Term debt		39,500	43,500	41,500	44,500
Exchangeable shares - current	4	9,547	9,209	8,943	7,789
		<b>49,047</b>	52,709	<b>50,443</b>	52,289
<b>Equity</b>					
Unitholders' capital	4	67,993	77,029	72,617	81,300
Retained earnings		14,496	8,385	11,486	5,425
Accumulated other comprehensive loss		(3,340)	(5,487)	(6,959)	(5,666)
		<b>79,149</b>	79,927	<b>77,144</b>	81,059
<b>CAPITAL</b>					
		<b>128,196</b>	132,636	<b>127,587</b>	133,348

*See accompanying notes*

**Richards Packaging Income Fund**

**STATEMENTS OF CHANGES IN EQUITY**

*Unaudited*

*For the three and six months ended June 30*

*[Consolidated]*

<i>Cdn\$ thousands</i>	<b>Notes</b>	<b>Unitholders' capital</b>	<b>Retained earnings</b>	<b>AOCL<sup>a)</sup></b>	
<b>March 31, 2012</b>		79,189	4,690	(6,688)	77,191
Share of comprehensive income			3,695	1,201	4,896
Distributions		(2,111)			(2,111)
Purchased for cancellation, net	4	(49)			(49)
<b>June 30, 2012</b>		77,029	8,385	(5,487)	79,927
<b>March 31, 2013</b>		<b>70,267</b>	<b>12,249</b>	<b>(5,629)</b>	<b>76,887</b>
Share of comprehensive income			2,247	2,289	4,536
Distributions		(2,098)			(2,098)
Purchased for cancellation, net	4	(176)			(176)
<b>June 30, 2013</b>		<b>67,993</b>	<b>14,496</b>	<b>(3,340)</b>	<b>79,149</b>
<b>December 31, 2011</b>		81,300	5,425	(5,666)	81,059
Share of comprehensive income			2,960	179	3,139
Distributions		(4,222)			(4,222)
Purchased for cancellation, net	4	(49)			(49)
<b>June 30, 2012</b>		77,029	8,385	(5,487)	79,927
<b>December 31, 2012</b>		<b>72,617</b>	<b>11,486</b>	<b>(6,959)</b>	<b>77,144</b>
Share of comprehensive income			3,010	3,619	6,629
Distributions		(4,198)			(4,198)
Purchased for cancellation, net	4	(426)			(426)
<b>June 30, 2013</b>		<b>67,993</b>	<b>14,496</b>	<b>(3,340)</b>	<b>79,149</b>

a) AOCL - Accumulated other comprehensive 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 and six months ended June 30*

*[Consolidated]*

<i>Cdn\$ thousands</i>	<b>Notes</b>	<b>Three months</b>		<b>Six months</b>	
		<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
<b>OPERATING ACTIVITIES</b>					
Profit from operations		3,640	3,738	6,432	7,471
Add items not involving cash					
Plant and equipment depreciation		318	307	614	590
Intangible assets amortization		1,616	1,614	3,232	3,226
Income taxes payments	3	(1,645)	(844)	(1,785)	(873)
		<b>3,929</b>	<b>4,815</b>	<b>8,493</b>	<b>10,414</b>
Changes in non-cash working capital	6	<b>1,052</b>	(2,163)	<b>1,673</b>	(6,446)
<b>Cash provided by operating activities</b>		<b>4,981</b>	<b>2,652</b>	<b>10,166</b>	<b>3,968</b>
<b>INVESTING ACTIVITIES</b>					
Additions to plant and equipment		(311)	(401)	(595)	(638)
Additions to intangible assets		—	—	(31)	(9)
<b>Cash used in investing activities</b>		<b>(311)</b>	<b>(401)</b>	<b>(626)</b>	<b>(647)</b>
<b>FINANCING ACTIVITIES</b>					
Repayment of term debt		(1,500)	(500)	(2,000)	(1,000)
Financial expenses paid		(525)	(697)	(1,020)	(1,340)
Purchase of Fund units for cancellation	4	(176)	(49)	(426)	(49)
Distributions to Exchangeable Shareholders		(210)	(209)	(419)	(417)
Distributions to Unitholders		(2,099)	(2,111)	(4,201)	(4,222)
<b>Cash used in financing activities</b>		<b>(4,510)</b>	<b>(3,566)</b>	<b>(8,066)</b>	<b>(7,028)</b>
<b>Net cash flows for the period</b>		<b>160</b>	<b>(1,315)</b>	<b>1,474</b>	<b>(3,707)</b>
Cash and cash equivalents, beginning of period		2,309	1,528	893	3,874
Foreign exchange effect		165	13	267	59
<b>Cash and cash equivalents, end of period</b>		<b>2,634</b>	<b>226</b>	<b>2,634</b>	<b>226</b>

*See accompanying notes*

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

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

*Unaudited*

*June 30, 2013*

*[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 2012 audited annual financial statements. The accounting policies used in the preparation of these condensed interim financial statements are consistent with the 2012 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>Three months</b>		<b>Six months</b>	
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
<b>Income subject to income taxes</b>	<b>3,181</b>	4,364	<b>4,526</b>	4,250
Statutory tax rate	26.5%	26.3%	26.5%	26.3%
Income tax expense at statutory tax rate	<b>843</b>	1,148	<b>1,199</b>	1,118
<b>Deferred income taxes</b>	<b>470</b>	73	<b>897</b>	110
Current period adjustments				
Foreign tax differential	<b>(215)</b>	(298)	<b>(428)</b>	(591)
Foreign rate differential	<b>237</b>	214	<b>459</b>	402
Withholding tax	<b>103</b>	—	<b>103</b>	—
Exchangeable shares				
Dividends and mark-to-market loss (gain)	<b>11</b>	(357)	<b>271</b>	483
Other items	<b>(45)</b>	(38)	<b>(88)</b>	(122)
<b>Current income taxes</b>	<b>1,404</b>	742	<b>2,413</b>	1,400

The utilization of the \$185 loss carry forward deferred tax balance as at December 31, 2012 is being recognized on a straight line basis for 2013.

The province of British Columbia implemented a 1% tax increase effective April 1, 2013.



## *Richards Packaging Income Fund*

### NOTES TO INTERIM FINANCIAL STATEMENTS

*Unaudited*

*June 30, 2013*

*[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>
<b>December 31, 2012</b>	10,715,970	10,735,721	1,059,043	11,775,013	11,794,764
Units purchased	(28,300)			(28,300)	
<b>March 31, 2013</b>	<b>10,687,670</b>	<b>10,687,670</b>	<b>1,059,043</b>	<b>11,746,713</b>	<b>11,746,713</b>
Units purchased	(19,500)			(19,500)	
<b>June 30, 2013</b>	<b>10,668,170</b>	<b>10,675,416</b>	<b>1,059,043</b>	<b>11,727,213</b>	<b>11,734,459</b>
six months		<b>10,681,509</b>			<b>11,740,552</b>

The average price paid for Units purchased under the normal course issuer bid was \$8.85 per Unit for the three months ending March 31 and \$9.01 per Unit for the three months ending June 30 [2012 – \$8.77]. Exchangeable shares mark-to-market loss reflects a unit price increase during the six months ended June 30, 2013 of \$0.56 to \$9.10 per Unit.

#### 5. COMMITMENTS AND CONTINGENCIES

Court proceedings associated with the prosecution of a patent, trademark and copyright infringement case was completed on April 9<sup>th</sup>. The judge will likely render his decision during the third quarter.

#### 6. ADDITIONAL CASH FLOW INFORMATION

The net change in working capital consists of the following:

	<b>Three months</b>		<b>Six months</b>	
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
Accounts receivable	<b>108</b>	(227)	<b>(1,896)</b>	(3,090)
Inventory	<b>1,680</b>	(1,967)	<b>4,156</b>	(1,102)
Prepaid expenses and deposits	<b>192</b>	(1,041)	<b>(49)</b>	(1,058)
Accounts payable and accruals	<b>(928)</b>	1,072	<b>(538)</b>	(1,196)
	<b>1,052</b>	(2,163)	<b>1,673</b>	(6,446)

For the three and six month periods the total foreign exchange translation gain excluded from the above values was \$810 [2012 – \$484] and \$1,296 [2012 – \$85] respectively.