

## **Q2 QUARTERLY REPORT**

### **Richards Packaging Income Fund**

Quarter ended June 30, 2014

#### **Report Contents**

|   |    |
|---|----|
| CEO's report to unitholders .....         | 1  |
| Management's discussion and analysis..... | 2  |
| Financial statements .....                | 11 |
| Notes to financial statements .....       | 15 |



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

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

*July 31, 2014*

---

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 continued on track with our 2014 revenue outlook, with total revenue up 4.8% due to 1.2% organic revenue growth and a U.S./Cdn. 6¢ weakening of the dollar. EBITDA<sup>1</sup> was up \$0.4 million, or 6.0%, due to higher sales and the translation impact of Richards US. Gross profit and EBITDA as a percent of sales were consistent with last year at 16.0% and 11.6% respectively. Net income was flat as lower intangible amortization offset the mark-to-market loss on the exchangeable shares.

First half results continues to reflect a strong US economy. Total revenue was up 6.1% with organic revenue growth of 1.7% in addition to a revenue increase due to a U.S./Cdn. 7¢ weakening of the dollar. EBITDA<sup>1</sup> was up \$0.9 million, or 8.4%, due to higher sales volumes and the translation impact of Richards US. Net income was down \$0.4 million, or 14.0%, when compared to the previous year as the higher taxes and mark-to-market loss on exchangeable shares were offset by higher EBITDA and the absence of patent defense legal costs.

The \$1.2 million of free cash flow<sup>2</sup> generated in the second quarter together with the \$0.8 million cash on hand, was utilized to pay down \$1.0 million of term debt, to pay \$1.0 million for first quarter income taxes, invest in \$0.1 million of expansion capital and to cover working capital needs. Income tax payments should now track with current income tax for the remainder of the year.

The Fund paid monthly distributions of 7.35¢ per Unit during the second quarter, which represented an annualized yield of 6.8% on the June 30<sup>th</sup> closing price of \$12.95 per Unit. The payout ratio<sup>3</sup> for the second quarter was 68%.

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

July 31, 2014

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

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

*July 31, 2014*

---

*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, 2014, the first quarter report dated May 9, 2014, the 2013 Annual Report and the 2013 Annual Information Form dated March 7, 2014 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 2013 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 11,500 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 14% of the total revenues of Richards Packaging (2013 – 15%). 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 \$2.5 mil., or 4.8%, due to 1.2% organic growth and 3.6% foreign exchange,
- EBITDA<sup>1</sup> up \$0.4 mil., or 6.0%, at 11.6% of sales similar to the previous year,
- Current income taxes up \$0.3 mil. due to higher EBITDA and US taxes,
- Net income was flat at \$2.2 mil. due primarily to a higher mark-to-market loss on exchangeable shares offset by lower intangible amortization,
- Non-cash working capital decreased \$0.2 mil. due to a \$2.3 mil. increase in payables used to invest in \$1.8 mil. inventory and an increase to receivables on higher revenue,
- The term and revolving credit maturities were extended 2 1/3<sup>rd</sup> years to September 30, 2017 for a fee of \$0.1 mil.,
- Free cash flow<sup>2</sup> of \$1.2 mil. was deployed to repay \$1.0 mil. of term debt and invest \$0.1 mil. in expansion capital. Cash on hand at March 31<sup>st</sup> of \$0.8 mil. was utilized to pay current income taxes payable from the first quarter,
- Distributable cash flow<sup>2</sup> and distributions increased by \$0.3 mil., or 2.8¢ per Unit, resulting in a 68% payout ratio<sup>3</sup>,
- Monthly distributions of 7.35¢ per Unit paid representing a 6.8% annualized return on the June 30<sup>th</sup> closing price of \$12.95 per Unit.

## Richards Packaging Income Fund

### MANAGEMENT'S DISCUSSION AND ANALYSIS

July 31, 2014

---

This MD&A covers the three and six months ended June 30, 2014 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 |        |
|--|---------|---------|------------|--------|
|  | 2014    | 2013    | 2014       | 2013   |
| <b>INCOME STATEMENT DATA:</b>          |         |         |            |        |
| Revenue.....                           | 53,444  | 50,973  | 104,437    | 98,388 |
| EBITDA <sup>1</sup> .....              | 6,193   | 5,841   | 11,901     | 10,977 |
| <i>Diluted per Unit</i> .....          | 52.8¢   | 49.8¢   | \$1.01     | \$0.93 |
| Net income.....                        | 2,199   | 2,247   | 2,591      | 3,010  |
| <i>Diluted per Unit</i> .....          | 20.5¢   | 19.5¢   | 24.2¢      | 28.2¢  |
| <b>FINANCIAL POSITION DATA:</b>        |         |         |            |        |
| Working capital.....                   | 40,379  | 41,741  |            |        |
| Net operating assets.....              | 123,502 | 128,196 |            |        |
| Term debt.....                         | 34,000  | 39,500  |            |        |
| <i>Debt/EBITDA</i> .....               | 1.5     | 1.9     |            |        |
| <b>CASH FLOW STATEMENT DATA:</b>       |         |         |            |        |
| Distributions.....                     | 2,592   | 2,309   | 4,912      | 4,620  |
| <i>Diluted per Unit</i> .....          | 22.1¢   | 19.7¢   | 41.9¢      | 39.4¢  |
| <i>Payout ratio</i> <sup>3</sup> ..... | 68%     | 67%     | 67%        | 71%    |
| Unit purchases.....                    | —       | 176     | —          | 426    |
| Debt repayment.....                    | 1,000   | 1,500   | 1,500      | 2,000  |

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 2013. Approximately one-third of sales are concentrated in Toronto, Montreal and Vancouver and one-third in Los Angeles, Reno and Portland.

Revenue increased by \$2.5 million, or 4.8%, for the second quarter from the same period in 2013 due to organic growth of 1.2% (\$0.6 million) and the translation impact of Richards US, with the Canadian dollar weakening by 6.1¢ to U.S./Cdn.\$0.92 (\$1.9 million). Revenue increased by \$6.0

## Richards Packaging Income Fund

### MANAGEMENT'S DISCUSSION AND ANALYSIS

July 31, 2014

million, or 6.1%, for the first half from the same period in 2013 due to organic growth of 1.7% (\$1.7 million) and the translation impact of Richards US, with the Canadian dollar weakening by 7.2¢ to U.S./Cdn.\$0.91 (\$4.4 million).

| (\$ thousands)                              | Qtr. 2        |              | Six months     |              |
|---|---------------|--------------|----------------|--------------|
|   | 2014          | 2013         | 2014           | 2013         |
| <b>Revenue</b> .....                        | <b>53,444</b> | 50,973       | <b>104,437</b> | 98,388       |
| Cost of products sold <sup>a)</sup> .....   | <b>44,908</b> | 42,894       | <b>87,822</b>  | 82,880       |
| Gross profit.....                           | <b>8,536</b>  | 8,079        | <b>16,615</b>  | 15,508       |
|   | <i>16.0%</i>  | <i>15.8%</i> | <i>15.9%</i>   | <i>15.8%</i> |
| Administrative expenses <sup>a)</sup> ..... | <b>2,395</b>  | 2,250        | <b>4,737</b>   | 4,515        |
| Foreign currency loss (gain).....           | <b>(52)</b>   | (12)         | <b>(23)</b>    | 16           |
| <b>EBITDA</b> <sup>1</sup> .....            | <b>6,193</b>  | 5,841        | <b>11,901</b>  | 10,977       |
|   | <i>11.6%</i>  | <i>11.5%</i> | <i>11.4%</i>   | <i>11.2%</i> |
| Amortization.....                           | <b>729</b>    | 1,934        | <b>2,370</b>   | 3,846        |
| Patent defense costs.....                   | —             | 267          | —              | 699          |
| Financial expenses.....                     | <b>589</b>    | 525          | <b>1,060</b>   | 1,025        |
| Exchangeable shares.....                    | <b>1,154</b>  | 41           | <b>3,260</b>   | 1,023        |
| Share of income - Vision.....               | <b>(19)</b>   | (107)        | <b>(39)</b>    | (142)        |
| Income tax expense.....                     | <b>1,541</b>  | 934          | <b>2,659</b>   | 1,516        |
| <b>Net Income</b> .....                     | <b>2,199</b>  | 2,247        | <b>2,591</b>   | 3,010        |

a) before amortization

Cost of products sold for the second quarter and the first half increased by \$2.0 million, or 4.7%, and by \$4.9 million, or 6.0%, from the same periods in 2013, respectively. Gross profit margins for the second quarter were similar to the first quarter levels at 16.0%. 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 2013 with slight increases due to foreign exchange.

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 \$0.4 million, or 6.0%, and by \$0.9 million, or 8.4%, from the same periods in 2013, respectively. As a percent of sales, EBITDA was at 11.6% for the second quarter and 11.4% for the first half, similar to the same periods in 2013. Changes were a result of the factors referred to above.

Amortization of \$0.7 million for the second quarter and \$2.4 million for the first half were mainly comprised of \$0.4 million and \$1.8 million respectively for intangibles assets amortization, which represents a charge for customer relationships and patents. Quarterly amortization of \$1.2 million

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

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

*July 31, 2014*

---

for customer relationships recognized in 2004 ceased in the second quarter. 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 costs in 2013 related to court trial costs incurred which was resolved in 2013 and Management does not expect to incur any additional costs associated with the case.

Financial expenses were higher for the second quarter compared to the same period in 2013 mainly due to bank refinancing fees as the benefits of interest on term debt were offset by increased costs on credit card discounting fees. Effective June 30, 2014, the term and revolving credit maturities were extended to September 30, 2017 as a cost of \$0.1 million.

Exchangeable shares mark-to-market loss reflects a 65¢ per Unit price increase during the second quarter to \$12.95 per Unit and a unit price increase of \$2.43 for the first half. Exchangeable shares monthly distributions increased \$0.8¢ in March 2014 to 7.35¢ per Unit.

Income tax expense increased \$0.6 million for the second quarter and \$1.1 million for the first half compared to the same periods in 2013, respectively, with current tax increases due to higher income in Richards Packaging US and lower deferred taxes associated with the drop in intangible amortization.

Net income for the second quarter was \$2.2 million and \$2.6 million for the first half, which represented 20.5¢ and 24.2¢ per Unit on a diluted basis, respectively. A time-weighted average of 10,702,778 Units and 1,024,435 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 \$0.8 million higher than in the same periods in 2013. Overall the increase was mainly due to the absence of patent defense costs as the increase in EBITDA<sup>1</sup> was offset by higher current taxes. Current income taxes for the second quarter increased \$0.3 million from the same period in 2013, due to the increase in earnings in Richards Packaging US.

Free cash flow<sup>2</sup> of \$1.2 million for the second quarter and \$2.4 million for the first half was deployed to repay \$1.0 million and \$1.5 million of term debt and fund expansion and working capital for revenue growth.

Monthly distributions were increased 0.8¢ per Unit beginning in the second quarter to 7.35¢ per Unit, which represents an annual yield of 6.8% on a \$12.95 price per Unit at June 30, 2014 and a payout ratio<sup>3</sup> of 68%.

## Richards Packaging Income Fund

### MANAGEMENT'S DISCUSSION AND ANALYSIS

July 31, 2014

| (\$ thousands)                              | Qtr. 2        |              | Six months    |              |
|---|---------------|--------------|---------------|--------------|
|   | 2014          | 2013         | 2014          | 2013         |
| Cash provided by operating activities.....  | 3,649         | 4,981        | 5,348         | 10,166       |
| Working capital changes.....                | (191)         | (1,052)      | 2,706         | (1,673)      |
| Income taxes payments.....                  | 2,735         | 1,645        | 3,847         | 1,785        |
| Patent defense costs.....                   | —             | 267          | —             | 699          |
| <b>EBITDA</b> <sup>1</sup>                  | <b>6,193</b>  | 5,841        | <b>11,901</b> | 10,977       |
| Patent defense costs.....                   | —             | 267          | —             | 699          |
| Interest <sup>(a)</sup> .....               | 521           | 525          | 992           | 1,025        |
| Current income tax.....                     | 1,721         | 1,404        | 3,288         | 2,413        |
| Maintenance capital.....                    | 166           | 185          | 320           | 356          |
| <b>Distributable cash flow</b> <sup>2</sup> | <b>3,785</b>  | 3,460        | <b>7,301</b>  | 6,484        |
| <i>Diluted per Unit</i> .....               | <i>32.3¢</i>  | <i>29.5¢</i> | <i>62.3¢</i>  | <i>55.2¢</i> |
| <b>Distributions</b> .....                  | <b>2,592</b>  | 2,309        | <b>4,912</b>  | 4,620        |
| <i>Diluted per Unit</i> .....               | <i>22.1¢</i>  | <i>19.7¢</i> | <i>41.9¢</i>  | <i>39.4¢</i> |
| <i>Payout ratio</i> <sup>3</sup> .....      | <i>68%</i>    | <i>67%</i>   | <i>67%</i>    | <i>71%</i>   |
| <b>Free cash flow</b> <sup>2</sup>          | <b>1,193</b>  | 1,151        | <b>2,389</b>  | 1,864        |
| <b>Units outstanding</b> (average)          |               |              |               |              |
| <i>Diluted basis 000's</i> .....            | <b>11,727</b> | 11,734       | <b>11,727</b> | 11,741       |

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 \$3.6 million, down \$1.3 million over the same period in 2013, primarily due to lower cash from working capital and higher income tax payments as Canadian tax was not required to be remitted in 2013. For the first half, cash flow from operating activities was \$5.3 million, down \$4.8 million primarily due to the buildup of working capital and higher income tax payments. During the second quarter, working capital decreased mainly on lower accounts payable of \$2.3 million, offset by higher inventory of \$1.8 million and receivables of \$0.4 million. For the first half, receivables, reflecting the same past due profile as at year end, and inventory increased \$2.2 million and \$0.6 million respectively.

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, 32% of the cash flow from operations was diverted to repay term debt and fund working and expansion capital. Actual distributions paid during the second quarter, including those declared for March 2014, were \$2.6 million with \$0.9 million declared for June, which was paid July 14<sup>th</sup>.

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

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

*July 31, 2014*

---

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

On March 13, 2014, the Fund renewed the normal course issuer bid to purchase up to 200,000 Units prior to March 12, 2015. During the second quarter, no Units were purchased (2013 – 19,500 at an average price of \$9.01 per Unit) and during the first half no Units were purchased (2013 – 47,800 Units at an average price of \$8.91 per Unit).

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

Current income tax expense was \$1.7 million for the second quarter and \$3.3 million for the first half, representing tax on higher earnings at Richards Packaging US, at Richards Canada and for withholding taxes.

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

Maintenance capital expenditures for the second quarter were \$0.2 million and \$0.3 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 new moulds for new customer programs.

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

Richards Packaging's credit facilities include a \$34.0 million term loan (2013 – \$39.5 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 1.55% to 1.80% (2013 – 1.55% to 1.80%).

During the second quarter, Richards Packaging extended the term and revolving credit facilities to September 30, 2017 on the same terms and conditions and expensed \$0.1 million of associated fees. 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, 2014, our leverage ratio was 1.47. 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 2014.

Revenue growth for the second quarter was as expected within the 1-3% growth band and is expected to continue for the third quarter. The impact of exchange translation is expected to increase



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

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

*July 31, 2014*

---

revenue by \$0.9 million for the third quarter on a weakening of 3¢ at current exchange rates of U.S./Cdn.\$0.93.

EBITDA<sup>1</sup> for the second quarter was \$6.2 million, up \$0.4 million against the same periods in 2013 and is expected to track at levels exceeding 11% of revenue for the third quarter. The impact of exchange translation is expected to be \$0.1 million for the third quarter at current exchange rates.

Current income tax is expected to increase by \$0.3 million for the third quarter against the same period in 2013, similar to the increase in the second quarter. Although Income taxes payments have exceeded Current income tax in first half due to commencement of Canadian taxes, a significant gap is not expected for the third quarter.

Maintenance capital will continue to be funded by cash flow from operations and is expected to be \$1.0 million in 2014.

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. Distributable cash flow<sup>2</sup> from Richards Packaging US and Richards Canada's current tax profile are expected to allow for a full return of capital to Unitholders.

#### **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 2013 Annual Information Form dated March 7, 2014. To management's knowledge, no significant changes to these risks and uncertainties have occurred in the first half of 2014.

#### **Critical Accounting Estimates**

The preparation of the consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions which affect the reported, and disclosure of, amounts for assets and liabilities as at June 30, 2014 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 2014, relative to December 31, 2013. 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 2013 Annual Report.

## **Richards Packaging Income Fund**

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

July 31, 2014

---

#### **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.

#### **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)

- 1 Management defines EBITDA as earnings before amortization, financial expenses, exceptional items (disputed duties and patent defense costs), 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 and patent defense costs. The definition was changed in 2013 to exclude disputed duties and as a result, relevant comparative amounts have been recalculated to conform to the presentation. 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.*
- 2 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.*
- 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*

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

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

*July 31, 2014*

---

*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 and six months ended June 30*

*[Consolidated]*

| <i>Cdn\$ thousands</i>                            | <b>Notes</b> | <b>Three months</b> |             | <b>Six months</b> |             |
|---|--------------|---------------------|-------------|-------------------|-------------|
|   |              | <b>2014</b>         | <b>2013</b> | <b>2014</b>       | <b>2013</b> |
| <b>Revenue</b>                                    |              | <b>53,444</b>       | 50,973      | <b>104,437</b>    | 98,388      |
| Cost of products sold                             |              | <b>45,620</b>       | 44,808      | <b>90,158</b>     | 86,689      |
| Administrative expenses                           |              | <b>2,412</b>        | 2,270       | <b>4,771</b>      | 4,552       |
| Foreign currency loss (gain)                      |              | <b>(52)</b>         | (12)        | <b>(23)</b>       | 16          |
| Patent defense legal costs                        |              | <b>—</b>            | 267         | <b>—</b>          | 699         |
| <b>Profit from operations</b>                     |              | <b>5,464</b>        | 3,640       | <b>9,531</b>      | 6,432       |
| Financial expenses                                |              | <b>589</b>          | 525         | <b>1,060</b>      | 1,025       |
| Exchangeable shares                               |              |                     |             |                   |             |
| Mark-to-market loss (gain)                        |              | <b>922</b>          | (169)       | <b>2,811</b>      | 604         |
| Distributions                                     |              | <b>232</b>          | 210         | <b>449</b>        | 419         |
| Share of income - Vision                          |              | <b>(19)</b>         | (107)       | <b>(39)</b>       | (142)       |
| <b>Income before income taxes</b>                 |              | <b>3,740</b>        | 3,181       | <b>5,250</b>      | 4,526       |
| Income tax expense (income)                       |              |                     |             |                   |             |
| Current taxes                                     | 3            | <b>1,721</b>        | 1,404       | <b>3,288</b>      | 2,413       |
| Deferred taxes                                    | 3            | <b>(180)</b>        | (470)       | <b>(629)</b>      | (897)       |
|   |              | <b>1,541</b>        | 934         | <b>2,659</b>      | 1,516       |
| <b>Net income for the period</b>                  |              | <b>2,199</b>        | 2,247       | <b>2,591</b>      | 3,010       |
| Basic income per Unit                             | 4            | <b>20.5¢</b>        | 21.0¢       | <b>24.2¢</b>      | 28.2¢       |
| Diluted income per Unit <sup>a)</sup>             | 4            | <b>20.5¢</b>        | 19.5¢       | <b>24.2¢</b>      | 28.2¢       |
| <b>Other comprehensive income (loss)</b>          |              |                     |             |                   |             |
| <i>(subsequently recyclable to Net income)</i>    |              |                     |             |                   |             |
| Richards Packaging US                             |              |                     |             |                   |             |
| Currency translation adjustment                   |              | <b>(2,350)</b>      | 2,289       | <b>191</b>        | 3,619       |
| <b>Comprehensive income (loss) for the period</b> |              | <b>(151)</b>        | 4,536       | <b>2,782</b>      | 6,629       |

*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>2014</b>     | <b>2013</b> | <b>2013</b>     | <b>2012</b> |
| <b>Current Assets</b>                         |              |                 |             |                 |             |
| Cash and cash equivalents                     |              | —               | 2,634       | <b>2,649</b>    | 893         |
| Accounts receivable                           |              | <b>23,168</b>   | 22,153      | <b>20,938</b>   | 19,718      |
| Inventory                                     |              | <b>37,848</b>   | 37,404      | <b>37,235</b>   | 40,379      |
| Prepaid expenses and deposits                 |              | <b>2,346</b>    | 2,440       | <b>2,056</b>    | 2,316       |
|   |              | <b>63,362</b>   | 64,631      | <b>62,878</b>   | 63,306      |
| <b>Current Liabilities (excluding debt)</b>   |              |                 |             |                 |             |
| Accounts payable and accruals                 |              | <b>(21,099)</b> | (20,729)    | <b>(20,674)</b> | (20,764)    |
| Income tax payable                            | 3            | <b>(179)</b>    | (563)       | <b>(738)</b>    | 65          |
| Distributions payable                         |              | <b>(864)</b>    | (769)       | <b>(770)</b>    | (771)       |
| Due to previous shareholder                   |              | <b>(841)</b>    | (829)       | <b>(838)</b>    | (784)       |
|   |              | <b>(22,983)</b> | (22,890)    | <b>(23,020)</b> | (22,254)    |
| <b>WORKING CAPITAL</b>                        |              | <b>40,379</b>   | 41,741      | <b>39,858</b>   | 41,052      |
| <b>Long-term Assets</b>                       |              |                 |             |                 |             |
| Plant and equipment                           |              | <b>3,414</b>    | 3,578       | <b>3,421</b>    | 3,564       |
| Investment - Vision                           |              | <b>773</b>      | 814         | <b>734</b>      | 672         |
| Intangible assets                             |              | <b>10,747</b>   | 15,620      | <b>12,489</b>   | 18,285      |
| Goodwill                                      |              | <b>72,632</b>   | 72,121      | <b>72,507</b>   | 70,367      |
|   |              | <b>87,566</b>   | 92,133      | <b>89,151</b>   | 92,888      |
| <b>Long-term Liabilities (excluding debt)</b> |              |                 |             |                 |             |
| Deferred income taxes                         | 3            | <b>(4,443)</b>  | (5,678)     | <b>(5,052)</b>  | (6,353)     |
| <b>NET OPERATING ASSETS</b>                   |              | <b>123,502</b>  | 128,196     | <b>123,957</b>  | 127,587     |
| <b>Debt</b>                                   |              |                 |             |                 |             |
| Term debt                                     |              | <b>34,000</b>   | 39,500      | <b>35,500</b>   | 41,500      |
| Exchangeable shares - current                 | 4            | <b>13,326</b>   | 9,547       | <b>10,515</b>   | 8,943       |
|   |              | <b>47,326</b>   | 49,047      | <b>46,015</b>   | 50,443      |
| <b>Equity</b>                                 |              |                 |             |                 |             |
| Unitholders' capital                          | 4            | <b>59,596</b>   | 67,993      | <b>64,144</b>   | 72,617      |
| Retained earnings                             |              | <b>19,034</b>   | 14,496      | <b>16,443</b>   | 11,486      |
| Accumulated other comprehensive loss          |              | <b>(2,454)</b>  | (3,340)     | <b>(2,645)</b>  | (6,959)     |
|   |              | <b>76,176</b>   | 79,149      | <b>77,942</b>   | 77,144      |
| <b>CAPITAL</b>                                |              | <b>123,502</b>  | 128,196     | <b>123,957</b>  | 127,587     |

*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'<br/>capital</b> | <b>Retained<br/>earnings</b> | <b>AOCL<sup>a)</sup></b> |         |
|---------------------------------|--------------|---------------------------------|------------------------------|--------------------------|---------|
| <b>March 31, 2013</b>           |              | 70,267                          | 12,249                       | (5,629)                  | 76,887  |
| 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>            |              | 67,993                          | 14,496                       | (3,340)                  | 79,149  |
| <b>March 31, 2014</b>           |              | 61,956                          | 16,835                       | (104)                    | 78,687  |
| Share of comprehensive income   |              |                                 | 2,199                        | (2,350)                  | (151)   |
| Distributions                   |              | (2,360)                         |                              |                          | (2,360) |
| Purchased for cancellation, net | 4            | —                               |                              |                          | —       |
| <b>June 30, 2014</b>            |              | 59,596                          | 19,034                       | (2,454)                  | 76,176  |
| <b>December 31, 2012</b>        |              | 72,617                          | 11,486                       | (6,959)                  | 77,144  |
| Share of comprehensive income   |              |                                 | 3,010                        | 3,619                    | 6,629   |
| Distributions                   |              | (4,448)                         |                              |                          | (4,448) |
| Purchased for cancellation, net | 4            | (176)                           |                              |                          | (176)   |
| <b>June 30, 2013</b>            |              | 67,993                          | 14,496                       | (3,340)                  | 79,149  |
| <b>December 31, 2013</b>        |              | 64,144                          | 16,443                       | (2,645)                  | 77,942  |
| Share of comprehensive income   |              |                                 | 2,591                        | 191                      | 2,782   |
| Distributions                   |              | (4,548)                         |                              |                          | (4,548) |
| Purchased for cancellation, net | 4            | —                               |                              |                          | —       |
| <b>June 30, 2014</b>            |              | 59,596                          | 19,034                       | (2,454)                  | 76,176  |

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>2014</b>         | <b>2013</b>  | <b>2014</b>       | <b>2013</b>  |
| <b>OPERATING ACTIVITIES</b>                     |              |                     |              |                   |              |
| Profit from operations                          |              | 5,464               | 3,640        | 9,531             | 6,432        |
| Add items not involving cash                    |              |                     |              |                   |              |
| Plant and equipment depreciation                |              | 299                 | 318          | 581               | 614          |
| Intangible assets amortization                  |              | 430                 | 1,616        | 1,789             | 3,232        |
| Income taxes payments                           | 3            | (2,735)             | (1,645)      | (3,847)           | (1,785)      |
|   |              | <b>3,458</b>        | <b>3,929</b> | <b>8,054</b>      | <b>8,493</b> |
| Changes in non-cash working capital             | 5            | <b>191</b>          | 1,052        | <b>(2,706)</b>    | 1,673        |
| <b>Cash provided by operating activities</b>    |              | <b>3,649</b>        | 4,981        | <b>5,348</b>      | 10,166       |
| <b>INVESTING ACTIVITIES</b>                     |              |                     |              |                   |              |
| Additions to plant and equipment                |              | (292)               | (311)        | (496)             | (595)        |
| Additions to intangible assets                  |              | —                   | —            | —                 | (31)         |
| <b>Cash used in investing activities</b>        |              | <b>(292)</b>        | (311)        | <b>(496)</b>      | (626)        |
| <b>FINANCING ACTIVITIES</b>                     |              |                     |              |                   |              |
| Repayment of term debt                          |              | (1,000)             | (1,500)      | (1,500)           | (2,000)      |
| Financial expenses paid                         |              | (522)               | (525)        | (985)             | (1,020)      |
| Purchase of Fund units for cancellation         | 4            | —                   | (176)        | —                 | (176)        |
| Distributions to Exchangeable Shareholders      |              | (232)               | (210)        | (449)             | (419)        |
| Distributions to Unitholders                    |              | (2,360)             | (2,099)      | (4,463)           | (4,201)      |
| <b>Cash used in financing activities</b>        |              | <b>(4,114)</b>      | (4,510)      | <b>(7,397)</b>    | (7,816)      |
| <b>Net cash flows for the period</b>            |              | <b>(757)</b>        | 160          | <b>(2,545)</b>    | 1,724        |
| Cash and cash equivalents, beginning of period  |              | 852                 | 2,309        | 2,649             | 893          |
| Foreign exchange effect                         |              | (95)                | 165          | (104)             | 267          |
| <b>Cash and cash equivalents, end of period</b> |              | <b>—</b>            | 2,634        | <b>—</b>          | 2,884        |

*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 2013 audited annual financial statements. The accounting policies used in the preparation of these condensed interim financial statements are consistent with the 2013 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>2014</b>         | <b>2013</b> | <b>2014</b>       | <b>2013</b> |
| Profit from operations                   | <b>5,464</b>        | 3,640       | <b>9,531</b>      | 6,432       |
| Financial expenses                       | <b>(589)</b>        | (525)       | <b>(1,060)</b>    | (1,025)     |
| <b>Income subject to income taxes</b>    | <b>4,875</b>        | 3,115       | <b>8,471</b>      | 5,407       |
| Statutory tax rate                       | 26.5%               | 26.5%       | 26.5%             | 26.3%       |
| Income tax expense at statutory tax rate | <b>1,292</b>        | 825         | <b>2,245</b>      | 1,422       |
| <b>Deferred income taxes</b>             | <b>180</b>          | 470         | <b>629</b>        | 897         |
| Current period adjustments               |                     |             |                   |             |
| Foreign tax differential                 | <b>(228)</b>        | (215)       | <b>(458)</b>      | (428)       |
| Foreign rate differential                | <b>395</b>          | 237         | <b>805</b>        | 459         |
| Withholding tax                          | <b>107</b>          | 103         | <b>107</b>        | 103         |
| Other items                              | <b>(25)</b>         | (16)        | <b>(40)</b>       | (40)        |
| <b>Current income taxes</b>              | <b>1,721</b>        | 1,404       | <b>3,288</b>      | 2,413       |



**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<br/>basic</b> | <b>Weighted<br/>average</b> | <b>Exchangeable<br/>Shares</b> | <b>Units<br/>diluted</b> | <b>Weighted<br/>average</b> |
|---------------------------|------------------------|-----------------------------|--------------------------------|--------------------------|-----------------------------|
| <b>December 31, 2013</b>  | <b>10,702,778</b>      | <b>10,676,491</b>           | <b>1,024,435</b>               | <b>11,727,213</b>        | <b>11,733,828</b>           |
| Units purchased           | —                      |                             |                                | —                        |                             |
| <b>March 31, 2014</b>     | <b>10,702,778</b>      | <b>10,702,778</b>           | <b>1,024,435</b>               | <b>11,727,213</b>        | <b>11,727,213</b>           |
| Units purchased           | —                      |                             |                                | —                        |                             |
| <b>June 30, 2014</b>      | <b>10,702,778</b>      | <b>10,702,778</b>           | <b>1,024,435</b>               | <b>11,727,213</b>        | <b>11,727,213</b>           |
| six months                |                        | <b>10,702,778</b>           |                                |                          | <b>11,727,213</b>           |

Exchangeable shares mark-to-market loss reflects a unit price increase during the six months ended June 30, 2014 of \$2.43 to \$12.95 per Unit.

The impact on income per Unit of the mark-to-market loss and distributions to shareholders is anti-dilutive which reverts back to basic income per Unit. For the 2014 three month period and the six month periods of 2014 and 2013, the calculation of the diluted income per Unit would yield 28.6¢, 49.9¢ and \$34.4¢, respectively.

The average price paid for Units purchased under the normal course issuer bid in 2013 was \$8.85 per Unit for the three months ending March 31 and \$9.01 per Unit for the three months ending June 30.

**5. ADDITIONAL CASH FLOW INFORMATION**

The net change in working capital consists of the following:

|                               | <b>Three months</b> |              | <b>Six months</b> |              |
|-------------------------------|---------------------|--------------|-------------------|--------------|
|                               | <b>2014</b>         | <b>2013</b>  | <b>2014</b>       | <b>2013</b>  |
| Accounts receivable           | (378)               | 108          | (2,157)           | (1,896)      |
| Inventory                     | (1,830)             | 1,680        | (595)             | 4,156        |
| Prepaid expenses and deposits | 123                 | 192          | (291)             | (49)         |
| Accounts payable and accruals | 2,276               | (928)        | 337               | (538)        |
|                               | <b>191</b>          | <b>1,052</b> | <b>(2,706)</b>    | <b>1,673</b> |

For the three and six month periods the total foreign exchange translation excluded from the above values was \$882 loss [2013 – \$810 gain] and \$150 gain [2013 – \$1,296 gain] respectively.