

Richards Packaging Income Fund

MANAGEMENT'S REPORT TO UNITHOLDERS

The accompanying financial statements of Richards Packaging Income Fund (the "Fund") and Management's Discussion and Analysis included in this Annual Report have been prepared by management and approved by the Board of Trustees of the Fund. The financial statements were prepared in accordance with International Financial Reporting Standards and, where appropriate, reflect management's best estimates and judgments. Management is responsible for the accuracy, integrity and objectivity of the consolidated financial statements within reasonable limits of materiality and for the consistency of financial data included in the text of the Annual Report dated March 3, 2016.

Management, in discharging these responsibilities, maintains a system of internal controls designed to provide reasonable assurance that its assets are safeguarded, only valid and authorized transactions are executed and accurate, timely and comprehensive financial information is prepared.

The Fund's Audit Committee is comprised of trustees who are neither employees nor officers of the Fund. The Audit Committee meets with management as well as with the external auditors to satisfy itself that management is properly discharging its financial reporting responsibilities and to review the consolidated financial statements and the Auditors' Report. The external auditors have direct access to the Audit Committee of the Board of Trustees.

The financial statements have been independently audited by PricewaterhouseCoopers LLP on behalf of the Unitholders, in accordance with Canadian generally accepted auditing standards. The Auditor's Report outlines the nature of their audit and expresses their opinion on the financial statements of the Fund.

"Wayne McLeod"

"Gerry Glynn"

"Enzio Di Gennaro"

Chair
Audit Committee

Chief Executive Officer
Richards Packaging Inc.

Chief Financial Officer
Richards Packaging Inc

Toronto, Ontario
March 3, 2016

March 3, 2016

INDEPENDENT AUDITOR'S REPORT

To the Unitholders of Richards Packaging Income Fund

We have audited the accompanying consolidated financial statements of Richards Packaging Income Fund and its subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2015 and December 31, 2014 and the consolidated statements of net income and comprehensive income, changes in equity and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Richards Packaging Income Fund and its subsidiaries as at December 31, 2015 and December 31, 2014 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

(Signed) "PricewaterhouseCoopers LLP"

**Chartered Professional Accountants, Licensed Public Accountants
Toronto, Canada**

Richards Packaging Income Fund

STATEMENTS OF NET INCOME AND COMPREHENSIVE INCOME

For the years ended December 31

[Consolidated]

<i>Cdn.\$ thousands, unless otherwise noted</i>	Notes	2015	2014
Revenue	5	249,430	212,285
Cost of products sold	6	211,103	182,807
Administrative expenses	6	11,399	9,642
Foreign currency loss	19	178	25
Profit from operations		26,750	19,811
Financial expenses	15	2,214	2,042
Exchangeable shares			
Mark-to-market loss	16	5,255	3,078
Distributions	16	885	919
Share of income - Vision	18	(134)	(98)
Profit before income taxes		18,530	13,870
Income tax expense (income)			
Current taxes	7	8,608	6,822
Deferred taxes	7	(583)	(974)
		8,025	5,848
Net income for the year		10,505	8,022
Basic and diluted income per Unit	16	\$0.97	\$0.75
Other comprehensive income <i>(subsequently recyclable to Net income)</i>			
Currency translation adjustment - Richards Packaging US	2	14,056	5,943
Comprehensive income for the year		24,561	13,965

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

Richards Packaging Income Fund

STATEMENTS OF FINANCIAL POSITION

As at December 31

[Consolidated]

<i>Cdn\$ thousands</i>	Notes	2015	2014
Current Assets			
Cash	8	794	1,127
Accounts receivable	9	30,281	23,262
Inventory	10	59,439	42,892
Prepaid expenses and deposits	11	2,267	2,211
		92,781	69,492
Current Liabilities (excluding debt)			
Accounts payable and accruals	12	(30,278)	(23,383)
Income taxes payable	7	(740)	(1,341)
Distributions payable	16	(870)	(865)
Due to previous shareholder	12	(1,091)	(914)
		(32,979)	(26,503)
WORKING CAPITAL	19	59,802	42,989
Long-term Assets			
Plant and equipment	13	3,743	3,190
Investment - Vision	18	712	628
Intangible assets	14	20,376	10,688
Goodwill	4,14	87,613	75,514
	5	112,444	90,020
Long-term Liabilities (excluding debt)			
Contingent consideration	4	(2,000)	—
Deferred income taxes	7	(7,149)	(4,435)
		163,097	128,574
NET OPERATING ASSETS			
Debt			
Term debt	15	46,883	32,428
Exchangeable shares - current	16	16,062	13,593
		62,945	46,021
Equity			
Unitholders' capital	16	47,828	54,790
Retained earnings		34,970	24,465
Accumulated other comprehensive income	2	17,354	3,298
		100,152	82,553
CAPITAL			
Commitments and contingencies	17,19 20	163,097	128,574

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

Richards Packaging Income Fund

STATEMENTS OF CHANGES IN EQUITY

For the years ended December 31

[Consolidated]

<i>Cdn\$ thousands</i>	Notes	Unitholders' capital	Retained earnings	AOCI^{a)}	Equity
December 31, 2013		64,144	16,443	(2,645)	77,942
Comprehensive income			8,022	5,943	13,965
Distributions		(9,266)			(9,266)
Purchased for cancellation, net		(88)			(88)
December 31, 2014		54,790	24,465	3,298	82,553
Comprehensive income			10,505	14,056	24,561
Distributions	<i>16</i>	(9,539)			(9,539)
Share conversion	<i>16</i>	2,786			2,786
Purchased for cancellation, net	<i>16</i>	(209)			(209)
December 31, 2015		47,828	34,970	17,354	100,152

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

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

Richards Packaging Income Fund

STATEMENTS OF CASH FLOWS

For the years ended December 31

[Consolidated]

<i>Cdn\$ thousands</i>	Notes	2015	2014
OPERATING ACTIVITIES			
Profit from operations		26,750	19,811
Add items not involving cash			
Plant and equipment depreciation	<i>13</i>	1,338	1,358
Intangible assets amortization	<i>14</i>	1,793	2,628
Income taxes payments	<i>7</i>	(9,356)	(6,219)
Dividends - Vision	<i>18</i>	50	204
Changes in non-cash working capital	<i>21</i>	(5,805)	(3,122)
Cash provided by operating activities		14,770	14,660
INVESTING ACTIVITIES			
Additions to plant and equipment	<i>13</i>	(1,528)	(1,018)
Additions to computer software	<i>14</i>	(215)	—
Acquisition, net of contingent consideration	<i>4</i>	(15,471)	—
Cash used in investing activities		(17,214)	(1,018)
FINANCING ACTIVITIES			
Proceeds from debt for acquisition	<i>4,15</i>	16,757	—
Repayment of revolving and term debt	<i>15</i>	(2,257)	(3,000)
Financial expenses paid	<i>15</i>	(2,259)	(2,155)
Purchase of Fund units for cancellation	<i>16</i>	(209)	(88)
Distributions paid to Exchangeable Shareholders	<i>16</i>	(893)	(908)
Distributions paid to Unitholders	<i>16</i>	(9,539)	(9,182)
Cash used in financing activities		1,601	(15,333)
Net cash flow for the year		(843)	(1,691)
Cash, beginning of year	<i>8</i>	1,127	2,649
Foreign exchange effect		510	169
Cash, end of year	<i>8</i>	794	1,127

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

Richards Packaging Income Fund

NOTES TO FINANCIAL STATEMENTS

December 31, 2015 and 2014

[Cdn\$ thousands, unless otherwise noted]

1. FORMATION OF THE FUND AND AQUISITION

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial statements of the Fund have been prepared in compliance with International Financial Reporting Standards [“IFRS”]. The measurement basis used was the historic cost convention, except for exchangeable shares which are measured at fair value. Working capital is defined as current assets less current liabilities (excluding debt) and Net operating assets is defined as working capital plus long-term assets less long-term liabilities (excluding debt). Accounting policies utilized under IFRS are consistent with those previously applied. Significant accounting policies are summarized as follows:

Principles of consolidation

The financial statements include the accounts of the Fund, Richards Packaging Holdings Inc. [“Holdings”] and its subsidiaries: Richards Packaging Inc. [“Richards Canada”], Healthmark Services Ltd. (“Healthmark”), effective October 1, 2015, Richards Packaging Holdings (US) Inc., 071907 Inc., Richards Packaging, Inc., The E.J. McKernan Company and McKernan Packaging - Richards de Mexico, S.A. de c.v. [collectively “Richards Packaging US”]. Vision Plastics Inc. [“Vision”], which is jointly controlled and accounted for under the equity method, is a plastic container manufacturing plant located in Vancouver, British Columbia, Canada. Holdings and its subsidiaries are referred to as “Richards Packaging”.

Foreign currency translation

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

Richards Packaging US has a US dollar functional currency. Assets and liabilities are translated at exchange rates in effect on the statement of financial position dates. Revenue and expenses are translated at average exchange rates prevailing during the year. Effects of translation are included in equity as accumulated other comprehensive income (loss). Upon any future sale of Richards Packaging US, the cumulative translation gain (loss) will be recycled to the Statement of Net Income to form part of the overall gain or loss on disposal.

Richards Packaging Income Fund

NOTES TO FINANCIAL STATEMENTS

December 31, 2015 and 2014

[Cdn\$ thousands, unless otherwise noted]

Use of estimates

Preparation of financial statements required management to make estimates and assumptions which affect the reported amounts of assets, liabilities, revenue and expenses. By their nature, these estimates are subject to measurement uncertainty and are reviewed periodically. Any adjustments deemed necessary are made prospectively in the period in which they are identified. Management believes that the allowances for doubtful accounts, inventory obsolescence, the testing for impairment of assets and contingent consideration associated with the Healthmark acquisition are critical accounting estimates that involve a high degree of judgment and complexity.

Revenue recognition

Revenue is recognized when significant risks and rewards of ownership are transferred to the customer and the amount of revenue can be reliably measured. Significant risks and rewards of ownership are normally transferred in accordance with shipping terms agreed to with the customer. Management estimates and records an allowance for product returns and discounts for each reporting period.

Operating leases

Rental payments and lease inducements are expensed on a straight line basis over the term of the leases.

Income taxes

The liability method to account for income taxes is utilized, with current taxes reflecting the expected income tax payable for the year and any adjustments in respect of amounts owing from previous years. Deferred tax assets and liabilities are determined based on temporary differences between the carrying values and the tax bases of assets and liabilities at substantively enacted tax rates that will be in effect when these differences are expected to reverse. Deferred tax assets are recognized only to the extent that it is probable that the assets will be realized.

Inventory

Inventory is valued at the lower of cost and net realizable value. Cost of inventory includes purchase price plus inbound freight for distributed products and direct variable costs and related production overheads for manufactured products, determined on a first-in, first-out basis. If the carrying value exceeds the net realizable value a write-down is recognized.

Plant and equipment

Plant and equipment are initially recorded at cost. Repairs and maintenance are charged to income as incurred. Depreciation is computed over the remaining estimated useful lives as outlined below:

Manufacturing equipment	straight-line over 7 years
Moulds	straight-line over 4 years
Computer equipment	30% diminishing balance
Warehouse and office equipment	20% diminishing balance

Richards Packaging Income Fund

NOTES TO FINANCIAL STATEMENTS

December 31, 2015 and 2014

[Cdn\$ thousands, unless otherwise noted]

Leasehold improvements

straight-line over lease term

Intangible assets

Intangible assets with a finite life are recorded at cost and are amortized on a straight-line basis over the period of expected future benefit. Customer relationships and contracts are amortized over 10 to 15 years, patents are amortized over 12 years and computer systems software is amortized over 5 years. Trademarks have indefinite lives and therefore are not amortized.

Goodwill

At the acquisition date, goodwill is recorded at the excess of the purchase price of an acquired business over fair value of the net assets acquired. Management monitors goodwill for the entire organization, a group of cash-generating units, and performs an impairment test on its goodwill annually, or more frequently if circumstances indicate a possible impairment. Goodwill includes contingent consideration for Healthmark which reflects management's estimate of future earnings. Actual consideration may differ and will be reflected in the Statement of Income.

Impairment testing of long-term assets

Non-current assets are reviewed for impairment when events or changes in circumstances indicate that their carrying value may not be recoverable. For purposes of evaluating the recoverability, a test is performed using discounted future net cash flows. Should impairment exist, the loss would be measured as the difference between the carrying value and the recoverable amount and recognized by way of an additional current period charge. Management has not identified any such impairment losses to date.

Exchangeable shares

Exchangeable shares are classified as debt and carried at fair value based upon the year end trading price of Units into which they are convertible [note 16]. Mark-to-market changes in value along with distributions are expensed during the period.

3. NEW ACCOUNTING PRONOUNCEMENTS

There are no new IFRS that became effective after January 1, 2015 other than the following:

The Fund will adopt IFRS 15, *Revenue from Contracts with Customers* for the annual period beginning on January 1, 2018 and IFRS 16, *Leases* for the annual period beginning on January 1, 2019. The revenue standard requires us to evaluate the timing of revenue recognition for customers with contracts and custom moulds. The leases standard requires us to capitalize and amortize the fair market value of most operating leases over the term of the leases. The impact of the adoption of these standards is not expected to have a material impact on the future financial statements of net income. The likely future impact of the adoption of the leases standard is expected to increase long term assets and long term liabilities on the statements of financial position.

Richards Packaging Income Fund

NOTES TO FINANCIAL STATEMENTS

December 31, 2015 and 2014

[Cdn\$ thousands, unless otherwise noted]

4. ACQUISITION

On October 1, 2015 Richards Packaging acquired all the outstanding shares of Healthmark Services Ltd., a leading Canadian provider of sterile IV, chemo and oral drug packaging and dispensing systems to the health care industry, for an aggregate purchase price of \$18,757, subject to adjustment depending on future earnings. Financing was by way of a draw of \$1,757 revolving and \$15,000 term debt. The revolver was paid down on close with cash acquired of \$1,286. Contingent consideration is estimated at \$2,000 and will be based on future earnings for 2016 or 2017 without limitation, at the seller's option, and is payable 90 days after the year then ended. This estimate was derived using fourth quarter results projected for a full year. The Statement of Net Income includes revenue of \$6,945 and net income of \$648 for the year ending December 31, 2015. Due to the lack of availability of reliable financial information for Healthmark prior to the acquisition, providing pro forma information for the full year is impractical.

	\$		\$
Current assets	7,264	Current liabilities	670
Plant and equipment	83	Deferred income taxes	2,543
Customer relationships	9,500		
Total assets acquired	16,847	Total liabilities assumed	3,213
Fair value of net assets acquired			13,634
Goodwill			5,123
Aggregate purchase price			18,757
Cash acquired			(1,286)
Contingent consideration			(2,000)
Acquisition, net of contingent consideration			15,471

5. SEGMENTED INFORMATION

Richards Packaging's operations consist of one reporting segment, principally the distribution of plastic and glass containers and associated closures. Geographic information is provided below and is determined based on the country of sales origination. No customer represents greater than 5% of total revenue.

	Canada		United States	
	2015	2014	2015	2014
Revenue	109,436	96,489	139,994	115,796
Long-term assets	54,874	37,204	57,571	52,816

Richards Packaging Income Fund

NOTES TO FINANCIAL STATEMENTS

December 31, 2015 and 2014

[Cdn\$ thousands, unless otherwise noted]

6. EXPENSES BY NATURE

	2015	2014
Salaries and wages	19,815	17,202
Benefits	4,199	2,901
Bonuses	1,465	1,001
Long-term incentive plan	109	128
Employee compensation	25,588	21,232
Inventory sold	164,512	141,164
Inventory provisions	2,405	1,448
Selling, distribution and other costs	21,972	20,265
Depreciation and amortization	3,131	3,986
Lease expenses	4,894	4,354
Cost of products sold and administrative expenses	222,502	192,449

Management is eligible to participate in the long-term incentive plan [the “LTIP”]. Awards for the cash reimbursement of Units purchased under the LTIP will vest over a three-year period, with one-third of the award vesting each year. The Trustees committed to annual funding of \$250 for three years starting in 2014. Total salaries and benefits for executive officers was \$1,908 [2014 – \$1,680].

7. INCOME TAXES

Significant components of deferred income taxes are as follows:

	2015	expense/	additions/	2014	expense/	2013	
	(income)	f/x ^{b)}	(income)	(income)	f/x ^{b)}		
Deferred tax liabilities							
Plant and equipment	779	33	86	660	(38)	36	662
Customer relationships ^{a)}	4,804	(450)	2,949	2,305	(692)	205	2,792
Computer system software	49	(56)	13	92	(54)	10	136
Patents and trademarks ^{a)}	1,796	(85)	262	1,619	(86)	113	1,592
Other	237	12	66	159	(31)	23	167
Deferred tax assets							
Working capital	(516)	(37)	(79)	(400)	(73)	(30)	(297)
	7,149	(583)	3,297	4,435	(974)	357	5,052

a) Reversal of patents and customer relationships and contracts accounts will not give rise to income taxes.

b) f/x = foreign exchange differences; 2015 customer relationships includes \$2,442 for Healthmark

Richards Packaging Income Fund

NOTES TO FINANCIAL STATEMENTS

December 31, 2015 and 2014

[Cdn\$ thousands, unless otherwise noted]

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

	2015	2014
Profit from operations	26,750	19,811
Financial expenses	(2,214)	(2,042)
Income subject to income taxes	24,536	17,769
Statutory tax rate	26.6%	26.5%
Income tax expense at statutory tax rate	6,527	4,709
Deferred income taxes	583	974
Current period adjustments		
Foreign tax differential	(859)	(873)
Foreign rate differential	1,815	1,573
Withholding tax on Richards Packaging US dividends (@5%)	525	342
Other items	600	97
Current income taxes	8,608	6,822

8. CASH

	2015	2014
Cash at bank	2,857	2,376
Issued and outstanding cheques	(2,063)	(1,249)
	794	1,127

Cash at bank represents cash clearing accounts at various branches which are netted on an overall basis. At December 31, 2015, cash at bank was net of \$1,427 of credit balances [2014 – \$1,630].

Richards Packaging Income Fund

NOTES TO FINANCIAL STATEMENTS

December 31, 2015 and 2014

[Cdn\$ thousands, unless otherwise noted]

9. ACCOUNTS RECEIVABLE

	2015	2014
Current	20,281	16,315
Up to 60 days past due	8,574	6,415
61 – 90 days past due	652	237
Over 90 days past due	1,001	526
Trade receivables	30,508	23,493
Allowance for doubtful accounts ^{a)}	(852)	(635)
Supplier rebates	626	404
	30,281	23,262

a) Management recorded new provisions of \$222 [2014 – \$332] and wrote off \$22 [2014 – \$8]. The remaining non-cash change in the accounts receivable reflects foreign exchange differences.

10. INVENTORY

	2015	2014
Goods purchased for resale	57,862	38,616
Goods in transit	5,507	5,889
Manufacturing raw materials	827	853
Manufactured finished goods	1,766	1,792
Reserve for slow moving inventory ^{a)}	(6,523)	(4,258)
	59,439	42,892

a) Management recorded a provision of \$2,405 [2014 – \$1,448] and recognized write-offs of \$263 [2014 – \$533]. The remaining non-cash change in inventory reflects foreign exchange differences.

11. PREPAID EXPENSES AND DEPOSITS

	2015	2014
Deposits for commitment to purchase goods	490	554
Rent and deposits	1,042	1,150
Insurance	117	32
Bank interest	86	85
Property taxes	9	8
Other deposits	523	382
	2,267	2,211

Richards Packaging Income Fund

NOTES TO FINANCIAL STATEMENTS

December 31, 2015 and 2014

[Cdn\$ thousands, unless otherwise noted]

12. ACCOUNTS PAYABLE AND ACCRUALS

	2015	2014
Trade payables	24,360	18,247
Rebates	507	348
Staffing expenses ^{a)}	2,318	1,738
Professional fees	419	379
Leases	901	724
Sales tax	575	510
Other payables	1,199	1,437
	30,279	23,383

a) Management bonuses included in staffing expenses have been fully paid subsequent to year end.

Included in Trade payables is \$469 associated with payables to Vision.

Included in Due to previous shareholder is a U.S.\$788 non-interest bearing demand loan owing to a previous shareholder associated with a previous acquisition.

Richards Packaging Income Fund

NOTES TO FINANCIAL STATEMENTS

December 31, 2015 and 2014

[Cdn\$ thousands, unless otherwise noted]

13. PLANT AND EQUIPMENT

	Manufacturing Equipment	Moulds	Warehouse & office	Computer equipment	Leaseholds	Total
December 31, 2013						
Carrying value	5,364	7,045	1,430	1,480	1,345	16,664
Accumulated Depreciation	(4,360)	(5,631)	(918)	(1,255)	(1,079)	(13,243)
Net book value	1,004	1,414	512	225	266	3,421
Additions	125	619	196	69	9	1,018
Depreciation	(373)	(728)	(93)	(104)	(60)	(1,358)
Foreign exchange differences	5	70	0	33	1	109
December 31, 2014						
Carrying value	5,494	7,734	1,626	1,582	1,355	17,791
Accumulated Depreciation	(4,733)	(6,359)	(1,011)	(1,359)	(1,139)	(14,601)
Net book value	761	1,375	615	223	216	3,190
Additions/Acquisition	374	476	405	225	91	1,571
Fully depreciated assets	(2,312)	(4,244)	(660)	(936)	(507)	(8,659)
Depreciation	(260)	(752)	(110)	(137)	(79)	(1,338)
Foreign exchange differences	89	136	(2)	99	(2)	320
December 31, 2015						
Carrying value	3,645	4,102	1,369	970	937	11,023
Accumulated Depreciation	(2,681)	(2,867)	(461)	(560)	(711)	(7,280)
Net book value	964	1,235	908	410	226	3,743

14. INTANGIBLE ASSETS AND GOODWILL

Intangible assets and Goodwill are not deductible for tax purposes. Goodwill has been assessed by calculating the recoverable amount determined based on the value in use. Five year cash flow budgets, prepared using growth rates experienced in the industry and approved by the Board, were used with the application of a pre-tax discount rate of 12% [2014 – 13%]. For periods beyond the budget period, cash flows were extrapolated using long term average growth rates of 1.6% [2014 – 1.4%]. Reasonably possible changes in key assumptions would not cause the recoverable amount to fall below the carrying value.

Richards Packaging Income Fund

NOTES TO FINANCIAL STATEMENTS

December 31, 2015 and 2014

[Cdn\$ thousands, unless otherwise noted]

	Customer relationships	Patents	Trade- marks	Computer software	Intangible assets	Goodwill
December 31, 2013						
Carrying value	63,511	3,830	3,388	2,382	73,111	72,507
Accumulated amortization	(55,906)	(2,720)		(1,996)	(60,622)	
Net book value	7,605	1,110	3,388	386	12,489	72,507
Additions	—	—	—	—	—	—
Amortization	(2,200)	(323)		(105)	(2,628)	
Foreign exchange differences	545	182	107	(7)	827	3,007
December 31, 2014						
Carrying value	64,437	4,012	3,495	2,375	74,319	75,514
Accumulated amortization	(58,487)	(3,043)		(2,101)	(63,631)	
Net book value	5,950	969	3,495	274	10,688	75,514
Additions/Acquisition	9,500	—	—	215	9,715	5,123
Fully amortized intangibles	(47,700)				(47,700)	
Amortization	(1,377)	(323)		(93)	(1,793)	
Foreign exchange differences	1,123	424	249	(29)	1,766	6,976
December 31, 2015						
Carrying value	28,386	4,436	3,744	2,561	39,127	87,613
Accumulated amortization	(13,191)	(3,366)		(2,194)	(18,751)	
	15,196	1,070	3,744	367	20,376	87,613

15. REVOLVING AND TERM DEBT

Richards Packaging has available both revolving and term debt credit facilities. On June 30, 2014, the revolving and term debt credit facilities' maturities were extended by 2 1/3rd years to September 30, 2017 at a cost of \$85. On October 1, 2015, the term debt credit facility was increased by \$15,000 to fund the acquisition of Healthmark at a cost of \$75 and \$1,757 was drawn on the revolving debt credit facility. Costs of \$117 remain to be amortized to over the term of the debt. The revolving credit facility availability of \$5,000 [2014 – \$5,000] bears interest at the prime rate plus a premium of 0.3% to 0.8%. The effective interest rate at December 31, 2015 was 3.4% [2014 – 3.6%]. During the year, the revolver was drawn by \$2,322 million for working capital needs and by \$1,757 million for the Healthmark acquisition and was fully repaid by year end. The term facility of \$47,000 [2014 – \$32,500] bears interest at the bankers' acceptance borrowing rate plus a premium of 1.25% to 1.8%. The effective interest rate at December 31, 2015 was 2.3% [2014 – 2.8%]. Voluntary repayments of term debt of \$500 [2014 – \$3,000] were made during the year ended December 31, 2015.

Richards Packaging Income Fund

NOTES TO FINANCIAL STATEMENTS

December 31, 2015 and 2014

[Cdn\$ thousands, unless otherwise noted]

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

	2015	2014
Interest expense	878	1,031
Credit card fees	1,129	874
Bank refinancing fees	31	13
Credit facility charges	176	124
	2,214	2,042

The banking syndicate has a first charge over all of Richards Packaging's assets as collateral for the revolving and term credit facilities. Richards Packaging is in compliance with all covenants [note 17].

16. UNITS AND EXCHANGEABLE SHARES

<i>Number outstanding</i>	Units basic	Weighted average	Exchangeable shares	Units diluted	Weighted average
December 31, 2013	10,702,778	10,676,491	1,024,435	11,727,213	11,733,828
Units purchased	(6,900)			(6,900)	
December 31, 2014	10,695,878	10,700,972	1,024,435	11,720,313	11,725,407
Share conversion	178,000		(178,000)		
Units purchased	(11,300)			(11,300)	
December 31, 2015	10,862,578	10,807,570	846,435	11,709,013	11,719,353

Exchangeable shares mark-to-market loss reflects a unit price increase during the year ended December 31, 2015 of \$5.89 [2014 - \$2.77] to \$19.18 per Unit. The impact on income per Unit of the mark-to-market loss and distributions to exchangeable shareholders is anti-dilutive which reverts back to basic income per Unit [2013 – anti-dilutive].

Fund Units

The Declaration of Trust provides that an unlimited number of Units may be issued. Each Unit is transferable and represents an equal undivided beneficial interest in any distributions of the Fund and in the net assets of the Fund. All Units have equal rights and privileges. Each Unit entitles the holder thereof to participate equally in allocations and distributions and to one vote at all meetings of Unitholders for each whole Unit held. The Units issued are not subject to future calls or assessments. Units are redeemable at any time at the option of the holder at amounts related to market prices at the time, subject to a maximum of \$50 in cash redemptions by the Fund in any particular month. The Fund is utilizing the puttable instrument exemption using the criteria in IAS 32, *Financial Instruments, Presentation*, to classify the Units as equity.

Richards Packaging Income Fund

NOTES TO FINANCIAL STATEMENTS

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[Cdn\$ thousands, unless otherwise noted]

The Fund initiated a normal course issuer bid on March 13, 2015 to purchase up to 200,000 Units prior to March 12, 2016. During the year, 11,300 Units were purchased [2014 – 6,900 Units] at an average price of \$18.50/Unit [2014 – \$12.74/Unit] and 178,000 exchangeable shares were converted to Units at an average price of \$15.65/Unit.

Contributed surplus

The components of Unitholders' capital include unit capital and contributed surplus. The Fund's purchase of 11,300 Units [2014 – 6,900] resulted in a reduction of \$152 [2014 - \$47] to \$550 [2014 – \$703].

Exchangeable shares

Exchangeable shares were issued by Richards Packaging to officers on the initial public offering and in connection with two business acquisitions. The exchangeable shares issued by Holdings and Richards Packaging Holdings (US) Inc. are redeemable on February 28, 2017 and are retractable by the shareholders at any time. A retraction or redemption of exchangeable shares will be paid in Units on a one-for-one basis. The Fund has the option to settle the redemption of Exchangeable shares issued by Richards Packaging Holdings (US) Inc. in cash. Exchangeable shares carry the right to vote at any meeting that Unitholders are entitled to vote on the same basis.

Distributions

Distributions are made monthly to Unitholders of record on the last business day of each month and paid on the 14th day of the following month. Distributions in 2015 began at \$786 and ended at \$798, or 7.35¢ per Unit, reflecting a 178,000 exchangeable share conversion and unit buyback activity by the Fund. The Board of Trustees approved a reduction in the capital account for distributions made for 2015.

Distributions paid to exchangeable shareholders are not subordinated to distributions to Unitholders and are declared on the same basis net of applicable taxes. Distributions are made monthly to shareholders of record on the last business day of each month and paid on the 14th day of the following month.

17. CAPITAL STRUCTURE

Capital consists of Unitholders' equity, exchangeable shares and secured credit facilities. Capital levels are maintained to meet the following objectives: optimizing the cost of capital at acceptable risk levels while providing an appropriate return to its Unitholders and shareholders; balancing the interests of equity shareholders, exchangeable shareholders and debt holders; maintaining compliance with financial covenants; and preserving financial flexibility to benefit from potential opportunities as they arise. The leverage ratio covenant was not to exceed 2.75 and the ratio at December 31, 2015 was 1.53 [2014 – 1.30]. In addition, the fixed charge coverage ratio covenant was greater than 2.0 times and the ratio was 3.54 [2014 – 3.28] and the minimum net worth covenant was \$70,000 and the net worth was \$116,313 [2014 – \$96,092].

Management continually assesses the adequacy of its capital structure and makes adjustments in light of changes in economic conditions and the risk characteristics of underlying assets. Adjustments may include changes in distributions, purchases of units for cancellation pursuant to normal course issuer bids, issues of

Richards Packaging Income Fund

NOTES TO FINANCIAL STATEMENTS

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new shares and/or Units, repayments or borrowings under the credit facilities and refinancing the debt to replace existing debt with different characteristics.

18. RELATED PARTY TRANSACTIONS AND INVESTMENT

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

	2015	2014
Leases of facilities from entities related to certain officers	881	709
Product purchases from Vision	6,770	6,898

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

	2015	2014		2015	2014
Statement of financial position					
Assets			Liabilities		
Current assets	1,616	1,370	Current liabilities	471	447
Plant and equipment	276	329			
Total assets	1,892	1,699	Net assets	1,421	1,252
Statement of net income					
Revenue				6,770	6,898
Expenses				6,501	6,702
Net income				269	196

The increase of \$84 in Investment – Vision represents share of net income of \$134 [2014 – \$98] less dividends of \$50 [2014 – 204].

19. FINANCIAL INSTRUMENTS

Fair value

Cash, accounts receivable, accounts payable and accruals, distributions payable and due to previous shareholder are all short-term in nature and, as such, their carrying values approximate fair values. All financial liabilities excluding exchangeable shares are classified as other financial liabilities measured at amortized cost.

The fair value of term debt approximates the carrying value as it bears interest at rates comparable to current market rates that would be used to calculate fair value. Exchangeable shares are recorded at fair value, based on the year end trading price of Units into which they are convertible, with changes in value recorded through net income [note 16].

Richards Packaging Income Fund

NOTES TO FINANCIAL STATEMENTS

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[Cdn\$ thousands, unless otherwise noted]

Credit risk

Financial assets exposed to credit risk consist primarily of trade receivables arising from the sale of goods. Concentration of credit risk is limited due to the large number of customers and geographical dispersion. As at December 31, 2015, no customer represented 5% or more of accounts receivable or sales.

Credit quality is assessed prior to establishing customer accounts. Management continuously monitors the collection of overdue accounts. For customers with overdue accounts, internal collection staff takes appropriate action, including the placement of accounts on hold, with third party collection or legal action taken. On a quarterly basis, the allowance for doubtful accounts is reviewed by management. The allowance for doubtful accounts as at December 31, 2015 is sufficient to cover impaired accounts [note 9].

Inventory obsolescence risk

Richards Packaging is exposed to inventory obsolescence due to customer insolvency when they have unique packaging, maturing product life cycles for stock items and large purchases due to economic order quantities. The inventory provision is assessed on a specific item-by-item basis considering a number of factors including aging, recent sales and market demand. Management continually monitors over-aged inventory with a focus to realize value before obsolescence occurs. On a quarterly basis, the reserve for inventory obsolescence is reviewed by management. The reserve as at December 31, 2015 is sufficient to cover losses due to inventory obsolescence [note 10].

Liquidity risk

The approach to managing liquidity risk is to ensure that sufficient funds are available to meet financial obligations as they come due [notes 12, 20]. This is achieved through a combination of cash balances [note 8], availability of credit facilities [note 15], surplus cash flow from operations, distribution policy and matching the maturities of financial assets and liabilities.

Interest rate risk

Exposure to interest rate risk arises due to variable interest rates on the revolving and term debt credit facilities. A 1.0% movement in interest rates would have impacted net income by \$347 [2014 – \$240].

Foreign currency risk

Exposure to U.S./Cdn. currency fluctuations arises on cross-border transactions and on the translation of cash flows of Richards Packaging US. A foreign currency loss of \$178 has been recorded for the year ended December 31, 2015 [2014 – \$25] relating to cross-border transactions. A 1.0% movement in foreign currency rates would have impacted net income by \$112 [2014 – \$100].

20. COMMITMENTS AND CONTINGENCIES

The minimum rental payments, exclusive of occupancy charges, required under the operating leases for premises are as follows:

Richards Packaging Income Fund

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	Related parties	Third parties	Total
2016	802	3,946	4,748
2017	780	3,139	3,919
2018	803	2,661	3,464
2019	827	2,661	3,488
2020	822	2,081	2,903
Thereafter	—	5,163	5,163

Richards Packaging committed to purchase manufacturing equipment of \$537 which was received and placed in use subsequent to year end.

In connection with the acquisition of Healthmark, Richards Packaging is committed to pay contingent consideration, currently recognized as \$2,000 [see note 4].

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

21. ADDITIONAL CASH FLOW INFORMATION

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

	2015	2014
Accounts receivable	(1,286)	(1,385)
Inventory	(8,815)	(3,570)
Prepaid expenses and deposits	254	(51)
Accounts payable and accruals	4,042	1,884
	(5,805)	(3,122)

For the year ended December 31, 2015, the foreign exchange translation gain excluded from the above was \$5,650 [2014 – \$2,362].

Richards Packaging Income Fund
UNITHOLDER INFORMATION

Trustees

Donald Wright
Chair

Wayne McLeod
Chair – audit committee

Derek Ridout
Chair – compensation and corporate
governance committee

Rami Younes
Trustee

Gerry Glynn
Trustee

Management Team

Gerry Glynn
Chief executive officer

David Prupas
President and Chief operating officer

Enzio Di Gennaro
Chief financial officer

Terry Edwards
Vice president

Timothy McKernan
President, McKernan Packaging

Corporate Information

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Transfer agent and registrar

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Montreal, Quebec H3B 3k3
www.canstockta.com

Toronto Stock Exchange listing

Symbol: RPI.UN

Investor information

Investor information is available at
www.richardspackaging.com, SEDAR at
www.sedar.com and TSX at www.tmx.com

Annual meeting

Friday May 6, 2016 at 9:30 a.m.
Brookfield Place
181 Bay Street, Suite 4400
Toronto, Ontario M5J 2T3