2016 Annual Report

Richards Packaging Income Fund

Securigo

HEALTHMARK

DISPILL

Good Things Come in

Richards Packaging

McKernan
PACKAGING CLEARING HOUSE

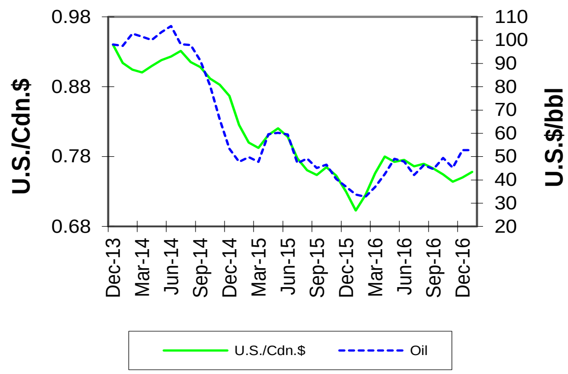
QUALITY DISCOUNT PACKAGING

Richards Packaging Income Fund

INVESTMENT PROPOSITION

Financial Markets

- US GDP strength catalyst for packaging up 5% in 2016 (down 2% in 2015)
- Commodities unable to gain traction in the back half of 2016
- U.S./Cdn. exchange rate now +/-$0.76
- Short term borrowing rates in US poised to go higher increasing spread with Canada
- Government shift to stimulus and growing deficits



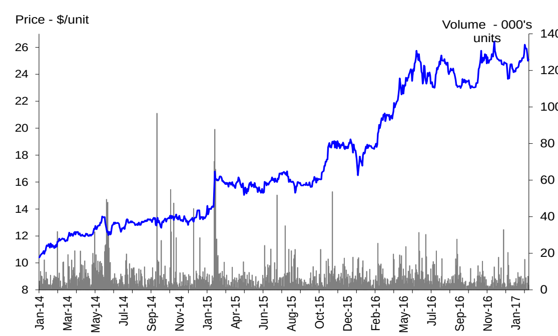
Distribution Policy

- Pro forma distributable cash reflects long term rates of 3% interest and a U.S./Cdn. 84¢ exchange rate
- Distributions for 2016 will be return of capital reflecting cash flow from Richards US
- April 2017 monthly distributions increase 1.65¢, or 17.5%, to 11¢ per Unit (up 2¢ in 2016)
- Payout target of 80% reflects uncertain times

($ millions)	**2016**	**Adj's**	**Proforma**
EBITDA	37.8	(2.5)	35.3
Interest	(2.6)	(0.8)	(3.4)
Dividends - Vision	0.1		0.1
Taxes	(11.0)	1.2	(9.8)
Maintenance capital	(0.7)	(0.3)	(1.0)
Future Distributable cash flow	23.6		21.2
Current distribution level	12.5	2.9	15.4
Payout Ratio	53%		73%

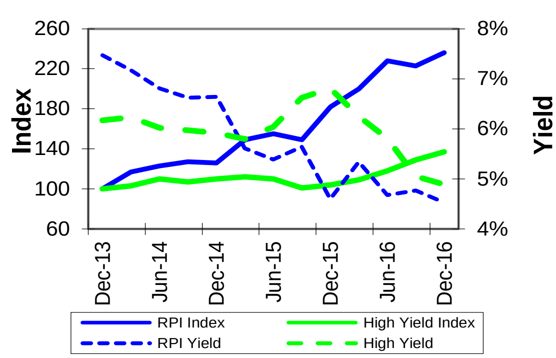
RPI.UN Trading Activity

- Prices above $25 reflecting demand for high-yield securities driving yield down to below 5%
- Increase in Nov 2015 reflected the Healthmark acquisition and a favourable currency environment
- Increase post March 2016 on 27% increase of monthly distribution by 2¢ per Unit
- Debt to EBITDA dropped 0.4 to 1.1 for 2016



High Yield Diversified Market

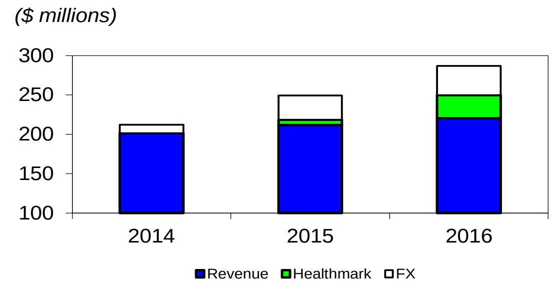
- December 2013 Price Index = 100
- Includes 35 corporations and trusts with yields in excess of 5%
- Yields dropping to between 6.25% and below 5%
- Average price index slightly rising
- Average payout 72% (2015 – 64%), monthly distribution 7.7¢ (2015 – 7.8¢) and leverage 2.3 (2015 – 2.2)



PERFORMANCE SNAPSHOT

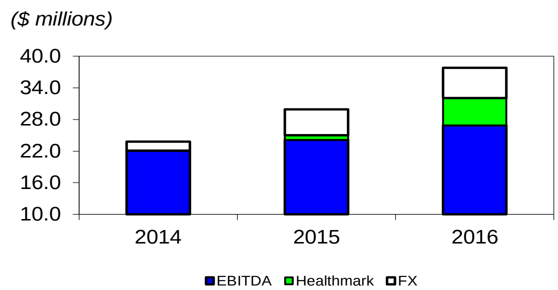
Revenue

- Organic growth 4% or $8.8 mil. mainly with small customers (2015 – $10.4 mil.)
- Non-cash currency translation impact of $6.3 mil. (2015 – $19.8 mil) with FX rates at U.S/Cdn. $0.75
- Changes in mix: 9% healthcare increase; small regional premium product customers now 70%



EBITDA[1]

- EBITDA up $7.8 mil. at 13% of sales (2015 – $6.1 mil. at 12% of sales)
- Inventory provision $2.7 mil. (2015 – $2.4 mil.)
- FX currency impact $0.8 mil. (2015 – $3.2 mil.)
- Expansion capital impact $0.2 mil.



Cash Management

- Free cash flow[2] reflects higher EBITDA and associated income taxes
- Cash balance of $1.0 mil. after payment on Healthmark acquisition and annual bonuses
- Working capital improvement on inventory reduction of $10.5 mil.
- Debt repayments $5.0 mil. (2015 – $2.3 mil.)

($ millions)	**2014**	**2015**	**2016**
Free Cash Flow	4.2	7.4	**11.1**
Cash	1.1	0.8	**13.3**
Working Capital	43.0	57.8	**53.9**
Expansion Capex	0.3	0.4	**0.9**
Term Debt	32.5	47.0	**42.0**
Debt/EBITDA	*1.3*	*1.5*	***1.1***
Units Purchased	0.1	0.2	**0.3**

Fourth Quarter Results

- Revenue growth of $2.2 mil., or 3.2%.; FX currency impact $0.2 mil. (2015 – $5.4 mil.) on flat exchange rate of U.S/Cdn $0.75
- EBITDA up $0.9 mil.; negligible FX currency impact (2015 – $2.3 mil.)
- Debt repayment of $2.0 mil. from free cash flow of $2.6 mil.

($ millions)	**2014**	**2015**	**2016**
Revenue	54.9	68.6	**70.8**
EBITDA[1]	6.3	8.5	**9.3**
	11.4%	*12.4%*	***13.2%***
Payout Ratio[3]	*72%*	*51%*	***57%***
Debt Repayment	1.0	2.3	**2.0**
Share Buyback	0.1	0.2	—

CEO'S REPORT TO UNITHOLDERS

December 31, 2016

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.

What a difference a year makes…2015 was the sling shot effect of the foreign currency devaluation (U.S./Cdn. 12¢) while 2016 was all about the benefits of the Healthmark acquisition, in both cases leading to explosive value creation in excess of $5 per Unit annually. The obvious question is what will 2017 bring with the significant changes in Washington… my guess is nothing so dramatic as organic growth falls in line with GDP. In order to best position ourselves for 2017 we brought working capital down $6 million, paid debt down $5 million and generated surplus cash of $13 million to fund the final payment on the Healthmark acquisition. It is now prudent to increase monthly distributions to reflect our solid footing for 2017.

Overall the 2016 performance exceeded our expectations with revenue growth of 15%. The Healthmark acquisition and organic growth added 12.5% while the dollar depreciation of 3¢ to U.S./Cdn. $0.75 added an additional 2.5% to revenue. EBITDA[1] as a percentage of sales rose 0.8% to 13%, or by $7.9 million. Net income was $7.9 million, or $0.73 per Unit, down $2.6 million from 2015 which mainly reflects higher EBITDA offset by contingent consideration for the Healthmark acquisition and the mark-to-market loss on exchangeable shares due to a $5.61/Unit appreciation.

Fourth quarter results reflected organic growth of $2.1 million, or 3.1%, slightly ahead of GDP growth and the dollar flat at U.S./Cdn. $0.75. EBITDA was up $0.8 million on higher revenues at 13% of sales. Net income was up $0.2 million as the higher EBITDA and the $0.8 million excess of insurance proceeds were mostly offset by an increase in the contingent consideration for the Healthmark acquisition of $2.9 million and the $1.4 million loss on mark-to-market of exchangeable shares.

The $11.1 million in free cash flow[2] for the year and the $6.3 million working capital reduction were utilized to build cash to settle the contingent consideration, to pay down $5.0 million in debt, pay for expansion capital of $0.9 million and purchase $0.3 million of Units under the normal course issuer bid.

The focus for 2017 will be to continue to grow revenue by 1% to 3% if the economic recovery continues. Cash flow from operations will be adequate to fund minimal working capital investments at these slower revenue growth rates. Acquisitions still remain part of our strategic direction although locating compelling targets has proved challenging[4].

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 — March 2, 2017
Richards Packaging Inc.

INDEPENDENT TRUSTEES' REPORT

December 31, 2016

It is our pleasure as independent trustees to provide this brief report on governance of the Fund.

The interests of Unitholders are represented by six trustees, five independent trustees and the chief executive officer of Richards Packaging Inc. Trustees also serve as directors of certain wholly owned subsidiaries of Richards Packaging. The mandate of the trustees is to ensure the integrity of reporting to Unitholders, while the directors monitor the strategic, business and financial plans of Richards Packaging, and the succession plan for senior management. Our approach to corporate governance is to meet or exceed the guidelines developed by the Ontario Securities Commission.

The trustees have established the audit committee which is responsible for overseeing the activities of the external auditors, PricewaterhouseCoopers LLP, the quality and thoroughness of financial reporting and the effectiveness of internal controls in providing financial information and safeguarding assets of Richards Packaging. The directors have established the compensation and corporate governance committee to assess senior management performance, review their compensation, set CEO compensation and oversee the succession planning process. All members of both committees are independent of management.

Each trustee, director and officer of Richards Packaging is a unitholder and combined own 38% of the Fund. Accordingly, our motivation and interests are aligned with the public unitholders. Overall, our goal as directors and officers is to add value to Richards Packaging by contributing our broad experience and expertise in directing a controlled growth-oriented enterprise.

The Fund increased monthly distributions by 2.0¢ to 9.35¢ per Unit beginning in April, which represents an annualized yield of 4.5% on the December 31st closing price of $24.79 per Unit. The payout ratio[3] for the fourth quarter was 56% and 53% for the year with free cash flow[2] mainly deployed to build cash to repay contingent consideration. The distributions for 2016 were all return of capital.

The Trustees approved an increase to the monthly distributions of 1.65¢ to 11.0¢ per unit beginning with unitholders of record at the close of business on March 31, 2017 payable on April 14, 2017. Factors considered when selecting this distribution level included current low interest rates and exchange rates and the cash needs of operations.

On March 14, 2016, the Fund initiated a normal course issuer bid to purchase up to 200,000 Units prior to March 13, 2017. During the year 16,000 units were purchased at an average price of $18.05 per Unit. On March 14, 2017, the Fund will reinstate a normal course issuer bid to purchase up to 200,000 Units prior to March 13, 2018.

"Don Wright"	*"Wayne McLeod"*	*"Rami Younes"*	*"Derek Ridout"*
Chair	Chair - audit committee	Trustee	Chair – compensation & Corporate governance committee

March 2, 2017

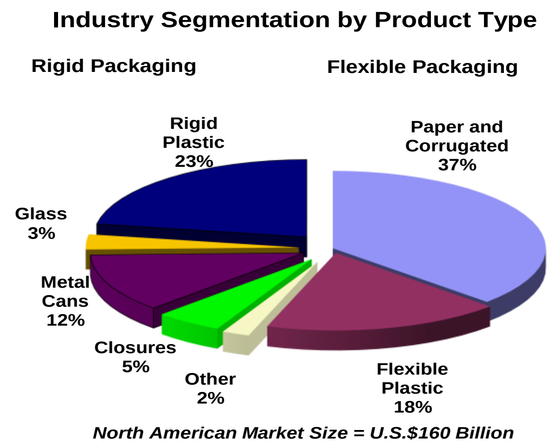
MANAGEMENT'S DISCUSSION AND ANALYSIS

March 2, 2017

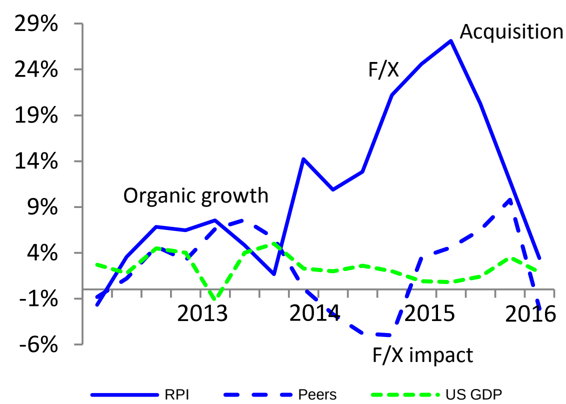
This management's discussion and analysis of Richards Packaging Income Fund ("MD&A") for the year should be read in conjunction with the attached audited financial statements for the year ended December 31, 2015, the quarterly reports for the periods ended March 31, June 30 and September 30, 2016 and the Annual Information Form dated March 2, 2017. Results are reported in Canadian dollars and have been prepared in accordance with International Financial Reporting Standards on a consistent basis with the annual financial statements.

North American Packaging Industry

Packaging is pervasive, as almost all products are delivered in some form of packaging. The properties of packaging fulfils not only the practical, transportability, protection functions and shelf life, but also serves to differentiate products and communicate branding messages such as quality, safety and consumer satisfaction. The latest ergonomically complex packaging components' design reflects significant investment in market research and product development. To meet the needs of this changing marketplace, the packaging industry has segmented into different product types outlined in the adjacent chart. Markets recovered in 2016 up 5% with GDP expansion.

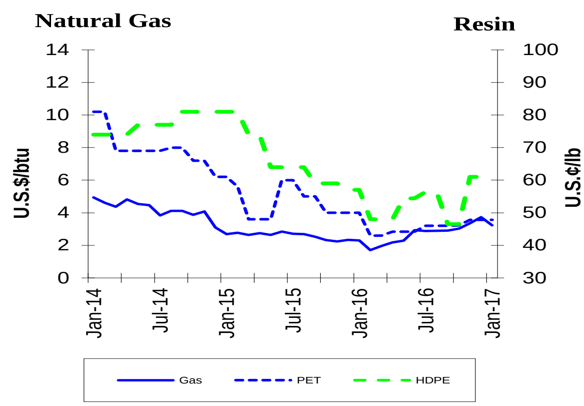


Revenue growth



As large product marketers have consolidated, packaging companies have embarked on a parallel industry consolidation strategy to meet their needs. Concentration is high in the glass, metal and paper segments with two to five companies controlling approximately 90% of their market and concentration is medium in the rigid plastic, flexible plastic and closure segments with 10 to 15 companies controlling 50% to 60% of their market. In 2016, there were over 294 acquisitions in the global packaging industry, up over the 269 acquisitions in 2015 at a median multiple of 8.0 times EBITDA[1] (2015 – 8.2). During 2016, the top 20 companies continued to spend on capital at the cautious rate of 5% of revenue. At the same time, excess capacity is continually being addressed with divestitures by conglomerates.

Energy prices continue to be a major factor for the industry affecting glass furnace economics, resin costs and freight costs. In 2016, HDPE and PET resin prices began to converge with natural gas, their main feedstock with prices dropping in line. Financing structures in place at most packaging companies are similar to that of an income trust, with significant use of debt priced anywhere from 3% to 7% and free cash flow[2] at 2%, which ensures that a disciplined approach to passing cost increases through will remain in place. Clear evidence is that for the top 20 companies, their EBITDA as defined within the industry as a percent of sales has remained at a healthy 14% overall for 2016.



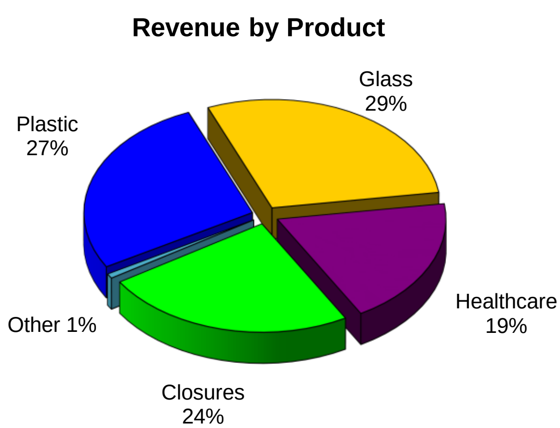
PET – Polyethylene terephthalate; HDPE – High Density Polyethylene

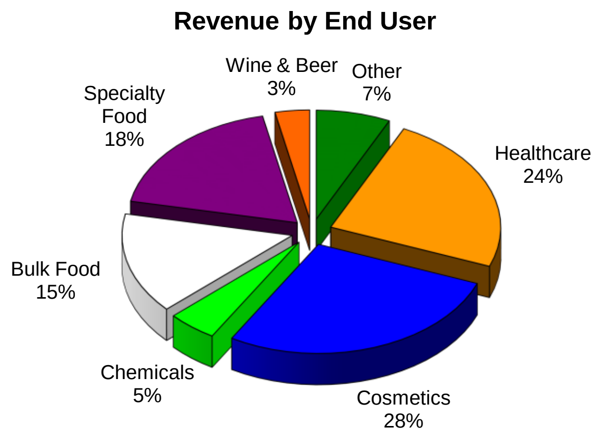
Description of the Business and Fund Profile

Within the North American Packaging Industry a $3 billion distributor-based market for rigid packaging exists to serve regional small- to medium-sized premium product marketers. Approximately 50 distributors provide marketing and package design expertise, source multiple packaging components from around the world, aggregate orders ensuring access to large manufacturers and provide inventory and logistics support to deliver a complete packaging solution. Concentration in this segment is growing with the top five companies now controlling over 60% of their market. Richards Packaging Inc. and its subsidiaries ("Richards Packaging") are the largest packaging distributor in Canada and the third largest in North America. Other distributors consist mainly of local or regional family-owned companies who specialize to meet the unique needs of their customers.

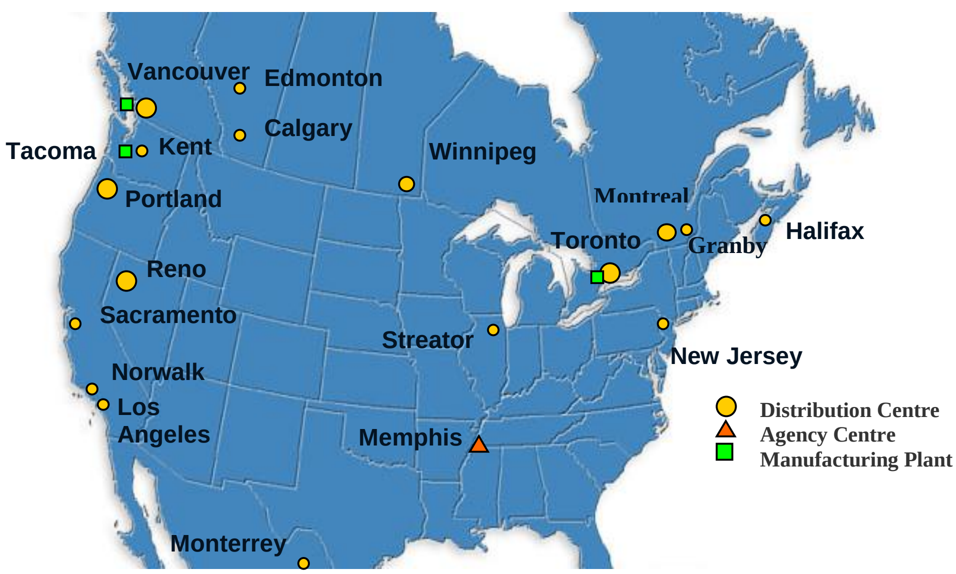
Richards Packaging Income Fund (the "Fund") is a limited purpose, open-ended trust created on February 26, 2004 to invest in packaging distribution businesses throughout North America. The Fund commenced operations on April 7, 2004 when the Fund completed an initial public offering of 8,569,913 trust units of the Fund ("Units") at a price of $10 per Unit and indirectly purchased 96% of the securities of Richards Packaging Inc. The remaining 4% represented the exchangeable shareholder ownership which has subsequently been re-characterized as debt.

Richards Packaging serves a wide customer base that is comprised of approximately 14,000 regional food, beverage, cosmetic, specialty chemical, pharmaceutical, healthcare and other companies (2015 – 13,300). 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 10% of the total revenues (2015 – 13%). In addition to providing its customers with a wide range of packaging solutions, Richards Packaging provides design and development services and comprehensive logistics management through 17 sales offices and one agency location.



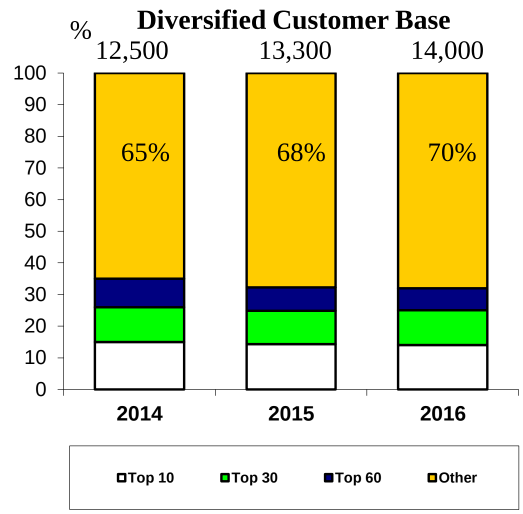


Richards Packaging Locations



The cornerstones of Richards Packaging's strategy include:

- Focusing on a diversified customer base dominated by small regional premium product marketers,
- Providing a complete one-stop source of packaging solutions,
- Being one of the largest distributors of European and Asian glass for the specialty food, wine and beer markets,
- Being the leading supplier of sterile IV, chemo and oral drug packaging and dispensing systems to health care service providers in Canada,
- Being the largest distributor of surplus packaging, and
- Being the only major distributor with dedicated in-house plastics manufacturing capability.



During 2016, management continued to strategically reposition Richards Packaging in the marketplace to optimize the concentration of large customers and focus on customers with the highest value for the unique product offering and services we provide. The concentration of our top 60 customers increased in 2016 by $6 million (2015 –$6 million) in addition to the $31 million growth in small customers (2015 – $24 million) as they experienced a growth rate of 19% per annum (2015 – 18%).

Impact of Changes in Financial Markets

Precarious global economic markets reflect struggling GDP growth, collapsing commodity prices, currency wars and divergent United States monetary policy from the rest of the first world. Policy shifts from austerity to government deficit spending and tax rate increases will also impact currency valuations and GDP growth.

Credit Markets and Interest rates

The forecast for US Federal Reserve is to raise interest rates 3 times within the next year while The Bank of Canada is not expected to move in the same time frame. Rates increased slightly with short term BA's at 0.9% (2015 – 0.8%).

Foreign Exchange

Exchange rates averaged U.S./Cdn. $0.75 leading to an impact on both revenue and EBITDA of $6.3 million and $0.8 million, respectively in the year. Volatility continued with plunging oil prices in the first quarter 2016 and the exchange rates dropping to U.S./Cdn. $0.72 but both experienced partial recoveries for the remainder of the year.

($ millions)	**2014**	**2015**	**2016**
INTEREST RATES	*1.2%*	*0.8%*	*0.9%*
Impact on Interest	—	0.1	—
F/X - U.S./Cdn.$	*0.91*	*0.78*	***0.75***
Impact on:			
Revenue	8.0	19.8	**6.3**
EBITDA	1.7	3.2	**0.8**

Gross Domestic Product

After experiencing consecutive quarters of negative growth in 2009, the gross domestic product growth rates in the United States and Canada remained mainly in positive territory for 2010 through 2016. In Canada, GDP grew 0.7% in the first quarter but then contracted 0.3% in the second quarter before bouncing back to 0.9% in the third and 2.6% for the fourth quarter. The United States GDP grew 0.8%, 1.4%, 3.5% and 1.9% in each of the respective quarters. Our US operations followed the United States' pattern however our Canadian operations outperformed in Canada.

Highlights and Selected Financial Information

The MD&A covers the three and 12 months ended December 31, 2016 and 2015 (generally referred to in this MD&A as the "fourth quarter" and the "year" respectively).

Highlights of the overall performance for the year include:

- Revenue up 15% due to the Healthmark acquisition, 4.2% organic growth and 2.5% from a 2.7¢ U.S./Cdn. drop,
- EBITDA[1] up $7.9 mil. representing 13% of sales or a 24.2% return on net operating assets; foreign currency contributing $0.8 mil.,
- Exceptional gains reflect the proceeds of disposal on sale of manufacturing equipment and insurance proceeds for damaged goods,
- Healthmark sellers elected to accelerate contingent consideration based upon 2016 year results with final adjustment of $8.4 mil. ($10.4 mil. payable on March 31st, 2017),
- Current income taxes up $2.4 mil. in line with higher taxable income,
- Net income down $2.6 mil. due primarily to the contingent consideration revaluation, mark-to-market losses on exchangeable shares and income taxes, partially offset by higher EBITDA and exceptional gains,
- Working capital decrease of $6.3 mil. – $10.5 mil. decrease in inventory offset by $3.1 mil. increase in receivables (44 days sales outstanding) and $0.9 mil. increase in prepaids,
- Cash balance of $13.3 mil. accumulated to settle contingent consideration and annual bonuses,
- Term debt repayments of $5.0 mil., leverage down to 1.1x,
- Monthly distributions increased 2.0¢ to 9.35¢ per Unit in March 2016 to yield a 4.5% return (@$24.79/Unit – Dec 31st),
- Buy back of $0.3 mil., or 16,000 Units (@ $18.05/Unit), under the normal course issuer bid, and
- Distributable cash flow[2] increased by 50¢ to $2.02 per Unit yielding a payout ratio[3] of 53%.

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, gains and losses on financial instruments and deferred income taxes. Factors considered when setting this level included the funding needed for potential acquisitions, the current low interest and foreign exchange rates and the cash needs of operations.

($ thousands)	Qtr. 1		Qtr. 2		Qtr. 3		Qtr. 4		Calendar Year		
	2016	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2014**
Income Statement Data:											
Revenue	**71,879**	56,329	**72,532**	60,304	**71,794**	64,174	**70,755**	68,623	**286,960**	249,430	212,285
EBITDA[1]	**9,356**	6,467	**9,606**	7,143	**9,478**	7,737	**9,321**	8,535	**37,761**	29,882	23,797
Diluted per Unit	*80.0¢*	*55.2¢*	*82.2¢*	*60.9¢*	*81.1¢*	*66.0¢*	*79.7¢*	*72.8¢*	*$3.23*	*$2.55*	*$2.03*
Net income	**3,300**	897	**-1,133**	3,408	**4,147**	4,847	**1,590**	1,353	**7,904**	10,505	8,022
Diluted per Unit c)	*30.4¢*	*8.4¢*	*-10.4¢*	*31.6¢*	*34.1¢*	*38.1¢*	*14.6¢*	*12.4¢*	*$0.73*	*$0.97*	*$0.75*
Financial Position Data:											
Working capital d)	**56,221**	46,284	**53,298**	48,735	**54,706**	51,318	**53,871**	57,802	**53,871**	57,802	42,989
Net operating assets	**158,422**	136,208	**155,136**	137,425	**156,434**	144,099	**156,114**	163,097	**156,114**	163,097	128,574
EBITDA/Assets									*24.2%*	*18.3%*	*18.5%*
Bank debt	**45,899**	32,435	**43,915**	33,307	**43,829**	32,448	**41,854**	46,883	**41,854**	46,883	32,428
Debt/EBITDA	*1.4*	*1.3*	*1.3*	*1.3*	*1.2*	*1.1*	*1.1*	*1.5*	*1.1*	*1.5*	*1.3*
Gearing ratio b)									*26.8%*	*28.7%*	*25.2%*
Cash Flow Statement Data:											
Distributions a)	**2,608**	2,604	**3,307**	2,602	**3,309**	2,609	**3,312**	2,609	**12,536**	10,424	10,175
Diluted per Unit	*22.4¢*	*22.3¢*	*28.3¢*	*22.2¢*	*28.3¢*	*22.3¢*	*28.3¢*	*33.3¢*	*$1.07*	*$0.89*	*$0.87*
Payout ratio [3]	*45%*	*71%*	*54%*	*59%*	*56%*	*56%*	*57%*	*51%*	*53%*	*58%*	*71%*
Free cash flow	**3,126**	1,074	**2,850**	1,785	**2,598**	2,040	**2,539**	2,523	**11,113**	7,422	4,247
Diluted per Unit	*26.7¢*	*9.2¢*	*24.4¢*	*15.2¢*	*22.2¢*	*17.4¢*	*21.7¢*	*21.5¢*	*$0.95*	*$0.63*	*$0.36*
Unit purchases	**289**	—	—	—	—	—	—	209	289	209	88
Debt repayments	**1,000**	—	**2,000**	(866)	—	866	**2,000**	2,257	**5,000**	2,257	3,000

a) presented on a declared basis;
b) calculated as the percentage of bank debt to net operating assets
c) anti-dilutive result reverts back to basic income per Unit
d) restated to include contingent consideration

Review of Operations

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

Revenue increased by $2.1 million, or 3.1% for the fourth quarter (2015 – $6.8 million, or 12.3% excluding $6.9 million of revenue from Healthmark), and by $37.5 million, or 15.0% for the year, (2015 – $37.1 million, or 17.5%), from the same periods in 2015, respectively. During the fourth quarter, revenue increased on organic growth of $2.1 million, or 3.1%, (2015 – $1.4 million, or 2.5%) back down to industry norms. There was minimal translation impact of Richards Packaging US, with the Canadian dollar staying at U.S./Cdn. $0.75. For the year, the revenue increase was due to the Healthmark acquisition and organic growth of $31.2 million, or 12.5%, (2015 – $17.4 million, or 7.9%) and the translation impact of Richards Packaging US of $6.3 million due to a U.S./Cdn. 2.7¢ weakening to U.S./Cdn. $0.75 (2015 – $19.8 million).

($ thousands)	**Qtr. 1**		**Qtr. 2**		**Qtr. 3**		**Qtr. 4**		**Calendar Year**		
	2016	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2014**
Revenue……………………	**71,879**	56,329	**72,532**	60,304	**71,794**	64,174	**70,755**	68,623	**286,960**	249,430	212,285
Cost of products sold………	**59,477**	47,262	**60,090**	50,479	**59,242**	53,326	**58,654**	57,041	**237,463**	208,108	178,934
Gross profit…………………	**12,402**	9,067	**12,442**	9,825	**12,552**	10,848	**12,101**	11,582	**49,497**	41,322	33,351
	17.3%	*16.1%*	*17.2%*	*16.3%*	*17.5%*	*16.9%*	*17.1%*	*16.9%*	*17.2%*	*16.6%*	*15.7%*
Administrative expenses……	**3,016**	2,538	**2,824**	2,648	**2,893**	3,022	**2,869**	3,054	**11,602**	11,262	9,529
Foreign currency loss……….	**30**	62	**12**	34	**181**	89	**(89)**	(7)	**134**	178	25
EBITDA[1]……………………	**9,356**	6,467	**9,606**	7,143	**9,478**	7,737	**9,321**	8,535	**37,761**	29,882	23,797
	13.0%	*11.5%*	*13.2%*	*11.8%*	*13.2%*	*12.1%*	*13.2%*	*12.4%*	*13.2%*	*12.0%*	*11.2%*
Amortization………………	**999**	694	**968**	703	**991**	689	**973**	1,046	**3,931**	3,132	3,986
Financial expenses………….	**640**	499	**652**	538	**665**	525	**591**	652	**2,548**	2,214	2,042
Exceptional gains……………	—	—	—	—	**(259)**	—	**(755)**	—	**(1,014)**	—	—
Contingent consideration……	—	—	**4,000**	—	**1,500**	—	**2,939**	—	**8,439**	—	—
Exchangeable shares…………	**1,883**	2,681	**2,787**	750	**(156)**	(382)	**1,361**	3,091	**5,875**	6,140	3,997
Share of income - Vision……	**(7)**	(27)	**(35)**	(27)	**(26)**	(52)	**(10)**	(28)	**(78)**	(134)	(98)
Income tax expense…………	**2,541**	1,723	**2,367**	1,771	**2,616**	2,110	**2,632**	2,421	**10,156**	8,025	5,848
Net Income (loss)…………	**3,300**	897	**(1,133)**	3,408	**4,147**	4,847	**1,590**	1,353	**7,904**	10,505	8,022

Cost of products sold (before amortization) increased $1.6 million for the fourth quarter or 2.8% (2015 –$10.7 million, or 23.2%) and increased by $29.3 million for the year, or 14.1% (2015 – $29.2 million, or 16.3%) from the same periods in 2015, respectively. During the fourth quarter gross profit margins were up 0.2% (2015 – 1.3%) from the same period in 2015, primarily due to the increased volumes. For the year, gross profit margins were up 0.6% (2015 – 0.9%) as higher volumes absorbed the impact of $2.7 million of inventory write-downs. The volatility in the price of resins continues to not have a material impact on margins as a result of management's practice of immediately passing through increases and decreases to customers.

Administrative expenses (before amortization) decreased $0.2 million for the fourth quarter (2015 –$0.7 million, or 0.2% of sales) and increased $0.3 million for the year (2015 – $1.7 million), over the same periods in 2015, respectively mainly due to the Healthmark acquisition and translation impact of expenses of Richards Packaging US.

The foreign currency loss resulted from exchange rate changes applied to our U.S. denominated working capital position within our Canadian operations. The net liability position, which dropped in the fourth quarter lead to a gain with the weakening of the Canadian dollar.

EBITDA[1] increased $0.8 million for the fourth quarter (2015 – $2.3 million) and $7.9 million for the year (2015 – $6.1 million), over the same periods in 2015, respectively. For the year the impact of the U.S./Cdn. 2.7¢ weakening resulted in an increase to EBITDA of $0.8 million (2015 – $3.2 million). As a percent of sales, EBITDA was at 13.2% for the fourth quarter and for the year (2015 – 12.0%).

Amortization of $1.0 million for the fourth quarter and $3.9 million for the year was mainly comprised of $0.6 million for the quarter and $2.6 million for the year for intangible assets, which represents a charge for customer relationships and patents. The remaining amortization amounts consisted of plant and equipment depreciation of $0.3 million for the fourth quarter and $1.4 million for the year, which is approximately equal to the annual capital expenditure spending requirement.

Financial expenses decreased $0.1 million for the fourth quarter from the same period in 2015 on lower credit card fees and increased $0.3 million for the year from the same period in 2015, with higher term debt outstanding due to the Healthmark acquisition.

Exchangeable shares include the mark-to-market loss and the dividends paid on the exchangeable shares. The mark-to-market loss for the year reflects a unit price increase during the year of $5.61 to $24.79 per Unit ($4.8 million) in addition to the monthly dividend on the exchangeable shares ($1.0 million) which was increased in March 2016 by 2.0¢ per Unit to 9.35¢ per Unit.

For the year, taxes increased $2.1 million as current taxes increased $2.4 million offset by higher deferred tax income of $0.3 million reflecting increased intangible amortization. Net deferred tax liabilities are $6.2 million, which include $5.7 million of customer relationships, patents and trademarks, $0.7 million of plant and equipment net of $0.2 million of working capital.

Net income for the fourth quarter was $1.6 million, and for the year was $7.9 million, which represented 14.4¢ and $0.73 per Unit on a diluted basis, respectively. A time-weighted average total of 10,846,578 Units and 846,435 exchangeable shares, exchangeable into Units on a one-for-one basis, were outstanding in 2016.

Distributable Cash Flow

The distributable cash flow[2] definition excludes changes in working capital and capital expenditures for 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 (2015 – nil drawn).

Distributable cash flow[2] for the fourth quarter at $5.9 million increased $0.7 million in comparison to the same period in 2015 as higher EBITDA[1] was offset by higher income taxes due to the increase in earnings. For the year distributable cash flow increased $5.8 million with higher EBITDA of $7.9 million and lower maintenance capital of $0.7 million was partially offset by $2.4 million of higher taxes, and higher interest of $0.4 million.

The monthly distribution increased 2.0¢ in April 2016 to 9.35¢ per Unit represents an annual yield of 4.5% on a $24.79 price per Unit at December 31, 2016 and a payout ratio[3] of 53% (2015 – 58%). Based upon the year, 100% of the distributions will represent return of capital to Unitholders while the exchangeable shareholders' dividends will be fully taxable.

($ thousands)	Qtr. 1		Qtr. 2		Qtr. 3		Qtr. 4		Calendar Year		
	2016	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2014**
Cash provided by											
operating activities	**7,798**	2,618	**6,285**	2,237	**7,809**	5,292	**12,729**	4,623	**34,621**	14,770	14,660
Dividends - Vision	—	—	—	—	—	(50)	**(50)**	—	**(50)**	(50)	(204)
Exceptional gains	—	—	—	—	**(259)**	—	**(755)**	—	**(1,014)**	—	—
Working capital changes	**150**	3,007	**(1,085)**	1,433	**(567)**	(154)	**(4,768)**	1,520	**(6,270)**	5,806	3,122
Income tax payments	**1,408**	842	**4,406**	3,473	**2,495**	2,649	**2,165**	2,392	**10,474**	9,356	6,219
EBITDA[1]	**9,356**	6,467	**9,606**	7,143	**9,478**	7,737	**9,321**	8,535	**37,761**	29,882	23,797
Interest [a)]	**640**	499	**652**	531	**665**	525	**591**	628	**2,548**	2,183	2,029
Dividends - Vision	—	—	—	—	—	(50)	**(50)**	—	**(50)**	(50)	(204)
Current income tax	**2,787**	1,864	**2,587**	1,972	**2,778**	2,212	**2,819**	2,560	**10,971**	8,608	6,822
Maintenance capital	**195**	426	**210**	253	**128**	401	**110**	215	**643**	1,295	728
Distributable cash flow[2]	**5,734**	3,678	**6,157**	4,387	**5,907**	4,649	**5,851**	5,132	**23,649**	17,846	14,422
Diluted per Unit	*49.0¢*	*31.4¢*	*52.7¢*	*37.4¢*	*50.5¢*	*39.7¢*	*50.0¢*	*43.8¢*	*$2.02*	*$1.52*	*$1.23*
Distributions	**2,608**	2,604	**3,307**	2,602	**3,309**	2,609	**3,312**	2,609	**12,536**	10,424	10,175
Diluted per Unit	*22.4¢*	*22.3¢*	*28.3¢*	*22.2¢*	*28.3¢*	*22.3¢*	*28.3¢*	*22.3¢*	*$1.07*	*$0.89*	*$0.87*
Payout ratio[3]	*45%*	*71%*	*54%*	*59%*	*56%*	*56%*	*57%*	*51%*	*53%*	*58%*	*71%*
Free cash flow[2]	**3,126**	1,074	**2,850**	1,785	**2,598**	2,040	**2,539**	2,523	**11,113**	7,422	4,247
Units outstanding *(average)*											
Diluted basis 000's	**11,693**	11,720	**11,693**	11,720	**11,693**	11,720	**11,693**	11,717	**11,693**	11,719	11,725

a) financial expenses less bank refinancing fees

Liquidity and Financing

Cash flows from operating activities

Cash flows from operating activities increased $8.1 million for the fourth quarter and increased $19.9 million for the year, over the same periods in 2015. The changes were due primarily to higher EBITDA[1] and lower working capital over the same periods in 2015 driven by lower inventory levels along with one time exceptional gains.

Free Cash Flow Deployment

The financial structure of the Fund allows for maximum distributions of cash flow from operations to the Unitholders and exchangeable shareholders as outlined above in the distributable cash discussion. Actual distributions paid during the year were $12.5 million with an additional $1.1 million declared for December, which was paid January 13th.

($ millions)	**2014**	**2015**	**2016**
Free Cash Flow	4.2	7.4	**11.1**
Cash	(2.3)	0.5	**11.2**
Working Capital	3.1	5.8	**(6.3)**
Expansion Capex	0.3	0.4	**0.9**
Unit Buyback	0.1	0.2	**0.3**
Debt Repayment	3.0	0.5	**5.0**

Normal Course Issuer Bid

On March 14, 2016, the Fund initiated a normal course issuer bid to purchase up to 200,000 Units prior to March 13, 2017. During the year 16,000 units were purchased at an average price of $18.05 per Unit. On March 14, 2017, the Fund will reinstate a normal course issuer bid to purchase up to 200,000 Units prior to March 13, 2018.

Current income taxes

The current income tax expense for the year was $11.0 million (2015 – $8.6 million) and includes $0.5 million of withholding taxes on dividends received from Richards Packaging US (2015 – $0.5 million).

Capital expenditures

Capital expenditures for the year were $1.5 million (2015 – $1.7 million), of which $0.9 million (2015 – $0.4 million) was on account of expansion capital primarily for the addition of manufacturing equipment for new customer programs. Maintenance capital expenditures of $0.6 million (2015 – $1.3 million) were mainly comprised of the refurbishment of moulds.

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 $18.8 million, subject to adjustment depending on future earnings. Financing was by way of a draw of $16.8 million on the debt facilities and the recognition of the contingent liability. The revolver was paid down on close with cash acquired of $1.3 million. Contingent consideration was estimated at $2,000 on December 31, 2015 and was based on future earnings for 2016 or 2017 without limitation, and is payable 90 days after the year then ended. The sellers have elected to be paid based on the 2016 year, therefore, an additional $8,439 of contingent consideration revaluation is reflected in the Statement of income based on the estimate as at December 31, 2016 and will be paid on March 31, 2017.

Financing activities and instruments

Free cash flow for the year was deployed to invest in working capital, pay down debt and purchase Units under the normal course issuer bid. The lower leverage continues to keep bank margining down and future debt reductions will provide financing flexibility for our ongoing acquisition program. The remaining free cash flow is more permanent in nature due to our distribution policy and is used to fund working capital for organic growth.

Credit facilities include a $42.0 million term loan (2015 – $47.0 million) with maturity on September 30, 2019 and up to $5.0 million in revolving debt to fund working capital expansion. The term loan facility bears interest at BA's plus a premium of 1.25% to 1.80% (2015 – 1.25% to 1.80%) or at the prime rate plus a premium of 0.25% to 0.80% (2015 – 0.25% to 0.80%). Term debt of $5.0 million was repaid in the year (2015 – $0.5 million). During the 2015 year, the revolver was drawn by $2.3 million for working capital needs and by $1.8 million for the Healthmark acquisition and was fully repaid by year end.

On September 30, 2016, the term and revolving credit facilities were extended to September 30, 2019 on the same terms and conditions at a cost of $0.1 million in associated fees. On October 1, 2015, the term debt credit facility was increased by $15 million to fund the acquisition of Healthmark at a cost of $0.1 million and $1.8 million was drawn on the revolving debt credit facility under the same terms and conditions.

The credit facilities are subject to a number of covenants including the leverage ratio which was to maintain debt less than 2.75 times the trailing twelve months EBITDA[1]. As at December 31, 2016, our leverage ratio was 1.1 (2015 – 1.5). Combined with cash flow from operations, management believes that adequate financing will be available for the foreseeable future[4].

Commitments and contractual obligations

In 2016, contingent consideration increased by $8.7 million and bank debt dropped by $5.0 million on repayments over 2015. Although the obligation to previous shareholder is on demand, the timing of the payment remains uncertain.

($ millions)	**Total**	**< 1 yr.**	**< 3 yrs.**	**< 5 yrs.**	**Beyond**
Bank debt	42.0		42.0		
Previous shareholder	1.0	1.0			
Contingent consideration	10.4	10.4			
Annual bonus plans	1.6	1.6			
Operating leases	21.9	5.0	8.6	4.1	4.2
	76.9	18.0	50.6	4.1	4.2

Outlook[4]

Management believes that financial performance is on track to meet ongoing requirements for working capital, capital expenditures and to sustain monthly distributions to Unitholders at the newly established level through 2017.

Management expects revenue growth to return to the industry growth average of 1 to 3%. The impact of exchange translation for the first quarter of 2017 is expected to reduce revenue by $2 million based on current exchange rates at U.S./Cdn.$0.76 up 3¢ from the first quarter in 2016.

EBITDA[1] for the fourth quarter was $9.4 million and $37.8 million for the year, and is expected to be maintained at levels of 13% of revenue. For the first quarter of 2017, translation is expected to impact EBITDA by $0.3 million at current exchange rates.

Interest rates are expected to remain at historically low levels for 2017.

Current income tax expense is expected to increase by $0.1 million in the first quarter of 2017 at current exchange rates.

Distributable cash flow[2] sensitivity to foreign currency fluctuations is $0.1 million for every U.S./Cdn. 1¢ movement.

Maintenance capital will continue to be funded by cash flow from operations and is expected to be $2.0 million in 2017 to fund system upgrades. Expansion capital is expected to be in the order of $1 to $2 million cumulatively over the next few years to support the launch of new marketing programs by our customers. These expenditures will be funded by free cash flow[2].

Cash on hand of $13.3 million at year end will be deployed to pay contingent consideration of $10.4 million, accrued bonuses of $1.4 million and taxes payable of $1.1 million.

Distributable cash flow from Richards Packaging US and the current tax profile of Richards Canada are expected to allow for a full return of capital to Unitholders. For 2017, surplus distributable cash is expected to be deployed to pay down debt, purchase units opportunistically under the normal course issuer bid and/or fund acquisitions.

Risks and Uncertainties

Business risks

Investment in Units involves risks inherent in the ordinary course of business including: sustainability of customer and supplier relationships, financial stability of customers, lack of written customer and supplier agreements, competition from other packaging companies, the extent and duration of an economic downturn, inventory obsolescence, trade risks, resin price and exchange rate fluctuations, interest rate volatility, 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 2016 Annual Information Form dated March 2, 2017.

Liquidity Risk

The ability to make scheduled payments of interest or to refinance will depend on leverage and future cash flow, which is subject to operational performance, prevailing economic conditions, exchange rate fluctuations, interest rate levels, and financial, competitive and other factors, many of which are beyond Richards Packaging's control. These factors might inhibit refinancing the debt at all, or on favourable terms. In addition, the credit facilities contain restrictive covenants that limit the discretion of management with respect to certain business matters and financial covenants that require Richards Packaging to meet certain financial ratios and financial condition tests. Failure to comply with obligations in the credit facilities could result in an event of default which, if not cured or waived, could permit acceleration of the relevant indebtedness. If the borrowings under the credit facilities were to be accelerated, there can be no assurance that assets on hand would be sufficient to repay in full that indebtedness. Richards Packaging's approach is to ensure sufficient liquidity to meet its liabilities when due. Cash levels are monitored daily to ensure sufficient continuity of funding.

Transactions with Related Parties

Three facilities were leased in 2016 from officers of Richards Packaging. Richards Packaging utilizes all of the production capability of Vision Plastics Inc., of which 50% is owned by the plant manager and 50% by Richards Packaging. All related party transactions are at rates that would be charged by arms-length parties.

Outstanding Share Data

At March 2, 2017, the Fund had 10,846,578 Units and Holdings had 846,435 exchangeable shares outstanding, respectively. See note 17 of the attached consolidated financial statements for further discussion on the terms of the Units and exchangeable shares.

Critical Accounting Estimates

Preparation of the consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions which affect the amounts reported and disclosure of contingent amounts for assets and liabilities as at December 31, 2016 and revenue and expenses for the year then ended. Critical accounting estimates used in preparation of the consolidated financial statements are outlined below.

Allowance for doubtful accounts

An allowance for doubtful accounts is reviewed periodically on an account-by-account basis with a focus on the creditworthiness, aging and historical collection experience. Based on this review, management believes the allowance as at December 31, 2016 is sufficient to cover risks inherent in outstanding receivables.

Inventory obsolescence

Management monitors future demand for its inventory on a product-by-product basis, inventory aging and prevailing demand in local markets to record an allowance for obsolescence. Management's analysis resulted in a $2.7 million recognition of expense through inventory write down for the year (2015 – $2.4 million). Based upon this review, management believes the obsolescence provision is adequate to cover risks inherent in inventory on hand as at December 31, 2016.

Intangible assets

Intangible assets have been recognized in connection with various acquisitions valued at $12.9 million as of December 31, 2016 pertaining to the future customer relationships. The basis of valuation assumed that the margin percent would remain constant and the duration of these relationships would be impacted by a retention rate of approximately 90% per year. The customer relationship intangible and associated $4.1 million future income tax liability as at December 31, 2016 will be amortized to income over 10-15 years from the date of acquisition. In addition, patent and trademark intangible assets of $4.4 million and an associated $1.7 million future income tax liability have been recorded. Although previously recognized patent and customer relationship intangible assets affect net income, they do not impact distributable cash flow[2].

Goodwill

Goodwill represents the excess purchase price of acquired businesses over the estimated fair value of the net assets acquired. Goodwill is not amortized but is reviewed for impairment annually or more frequently if impairment indicators arise. Although the Unit price was $24.79 as at December 31, 2016 (2015 – $19.18), management believes that this is still not indicative of the fair value of the Fund. To determine fair value, management relies upon a valuation method based on a discounted cash flow model that assumes revenue growth of 1.6% and inflation of 2% per annum respectively. Overall the carrying value of goodwill continues to be supported by the fair value of the Fund.

Contingent consideration

Contingent consideration represents the additional purchase price payable to the sellers of Healthmark and is estimated at $10.4 million. The actual amount is based on earnings for 2016 without limitation and is payable on March 31, 2017. Based on the 2016 earnings, management believes the estimated accrual is adequate to settle the liability.

New Accounting Pronouncements

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 by approximately $19,000. See *Commitments and contractual obligations* for a summary of operating leases.

Disclosure Controls and Internal Controls over Financial Reporting

The Fund has established and maintains disclosure controls and procedures as well as internal controls over financial reporting. Richards Packaging's Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of the disclosure controls and procedures as well as the design and operating effectiveness of internal controls over financial reporting as of December 31, 2016 and have concluded that such controls and procedures are adequate and effective. Management determined that there were no material weaknesses in the Fund's internal controls over financial reporting as of December 31, 2016 and there have been no changes in the internal controls over financial reporting during the year ended December 31, 2016 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, SEDAR at www.sedar.com or TSX at www.tmx.com.

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1 *Management defines EBITDA as earnings before amortization, exceptional gains, contingent consideration revaluation, financial expenses, unrealized losses and dividends on exchangeable shares, share of income - Vision and taxes. EBITDA is the same as profit from operations as outlined in the annual financial statements after adding back amortization, exceptional gains and contingent consideration revaluation. Management believes that in addition to net income, EBITDA is a useful supplemental measure for investors of earnings available for distribution prior to debt service, capital expenditures and taxes. Management uses this measure as a starting point in the determination of earnings available for distribution to Unitholders and exchangeable shareholders. In addition, EBITDA is intended to provide additional information on the operating performance. This earnings measure should not be construed as an alternative to net income or as an alternative to cash flows from operating, investing and financing activities as a measure of liquidity and cash flows. EBITDA does not have a standardized meaning prescribed by IFRS and therefore the method of calculating EBITDA may not be comparable to similar measures presented by other companies.*

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 these measures 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 the 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 and dividends declared over distributable cash flow[2]. The objective of presenting this measure is to calculate the percentage of actual distributions in comparison to the amount available for distribution. Payout ratio does not have a standardized meaning prescribed by IFRS. The method of calculating the payout ratio may not be comparable to similar measures presented by other companies.*

4 *The Report to Unitholders and this MD&A contains forward-looking information within the meaning of applicable securities laws. The forward-looking information reflects management's current beliefs and expectations regarding the future growth, results of operations, performance and business prospects and opportunities of the Fund and Richards Packaging. We use words such as "may", "will", "should", "anticipate", "plan", "expect", "believe", "predict", "estimate" and similar terminology to identify forward-looking information. It is based on assumptions, estimates and analysis made by us in light of our experience and our perception of trends, current conditions and expected developments, as well as other factors we believe to be reasonable and relevant in the circumstances. Forward-looking information involves significant known and unknown risks, uncertainties and other factors which may cause our actual results, performance or achievements to be materially different from those predicted, expressed or implied by the forward-looking information. Readers should not place undue reliance on forward-looking information as a number of factors could cause actual events, results and prospects to differ materially from those expressed in or implied by the forward-looking information. The risks and uncertainties include, among other things, changes in customer and supplier relationships, the extent and duration of the worldwide recession and the impact on order volumes and pricing, competition in the industry, inventory obsolescence, trade risks in respect of foreign suppliers, the ability to finance additional acquisitions and to successfully integrate the acquired businesses, fluctuations in raw material prices, fluctuations in foreign exchange and interest rates, liability claims, reliance on key personnel, compliance with environmental, trade and other laws, changes to applicable tax laws, as well as other risks and uncertainties, as more fully described herein under "Risks and Uncertainties" and in other reports and filings made by us with securities regulatory authorities and available at www.sedar.com. While management believes that 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.*

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 2, 2017.

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 2, 2017

March 2, 2017

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, 2016 and December 31, 2015 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, 2016 and December 31, 2015 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]*

Cdn$ thousands, unless otherwise noted	Notes	2016	2015
Revenue	*5*	**286,960**	249,430
Cost of products sold	*6*	**241,289**	211,103
Administrative expenses	*6*	**11,707**	11,399
Foreign currency loss	*20*	**134**	178
Exceptional gains	*7*	**(1,014)**	—
Contingent consideration revaluation	*4*	**8,439**	—
Profit from operations		**26,405**	26,750
Financial expenses	*16*	**2,548**	2,214
Exchangeable shares			
Mark-to-market loss	*17*	**4,842**	5,255
Distributions	*17*	**1,033**	885
Share of income - Vision	*19*	**(78)**	(134)
Profit before income taxes		**18,060**	18,530
Income tax expense (income)			
Current taxes	*8*	**10,971**	8,608
Deferred taxes	*8*	**(815)**	(583)
		10,156	8,025
Net income		**7,904**	10,505
Basic and diluted income per Unit	*17*	***$0.73***	*$0.97*
Other comprehensive income			
(subsequently recyclable to Net income)			
Currency translation adjustment - Richards Packaging US	*2*	**(2,674)**	14,056
Comprehensive income		**5,230**	24,561

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

Richards Packaging Income Fund

STATEMENTS OF FINANCIAL POSITION

As at December 31 *[Consolidated]*

Cdn$ thousands	Notes	2016	2015
Current Assets			
Cash and cash equivalents	*9*	**13,257**	794
Accounts receivable	*10*	**32,827**	30,281
Inventory	*11*	**47,791**	59,439
Prepaid expenses and deposits	*12*	**3,172**	2,267
		97,047	92,781
Current Liabilities *(excluding debt)*			
Accounts payable and accruals	*13*	**(29,562)**	(30,278)
Income tax payable	*8*	**(1,110)**	(740)
Distributions payable	*17*	**(1,104)**	(870)
Contingent consideration	*4*	**(10,439)**	—
Due to previous shareholder	*13*	**(961)**	(1,091)
		(43,176)	(32,979)
WORKING CAPITAL	*20*	**53,871**	59,802
Long-term Assets			
Plant and equipment	*14*	**3,909**	3,743
Investment - Vision	*19*	**740**	712
Intangible assets	*15*	**17,459**	20,376
Goodwill	*4,15*	**86,326**	87,613
	5	**108,434**	112,444
Long-term Liabilities *(excluding debt)*			
Contingent consideration	*4*	—	(2,000)
Deferred income taxes	*8*	**(6,191)**	(7,149)
NET OPERATING ASSETS		**156,114**	163,097
Debt			
Term debt	*16*	**41,854**	46,883
Exchangeable shares - current	*17*	**20,904**	16,062
		62,758	62,945
Equity			
Unitholders' capital	*17*	**35,802**	47,828
Retained earnings		**42,874**	34,970
Accumulated other comprehensive income	*2*	**14,680**	17,354
		93,356	100,152
CAPITAL	*18,20*	**156,114**	163,097
Commitments and contingencies	*21*		

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]*

Cdn$ thousands	**Notes**	**Unitholders' capital**	**Retained earnings**	**AOCI[a)]**	**Equity**
December 31, 2014		54,790	24,465	3,298	82,553
Comprehensive income			10,505	14,056	24,561
Distributions		(9,539)			(9,539)
Share conversion	*17*	2,786			2,786
Purchased for cancellation, net		(209)			(209)
December 31, 2015		47,828	34,970	17,354	100,152
Comprehensive income			**7,904**	**(2,674)**	**5,230**
Distributions	*17*	**(11,737)**			**(11,737)**
Purchased for cancellation, net	*17*	**(289)**			**(289)**
December 31, 2016		**35,802**	**42,874**	**14,680**	**93,356**

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.

STATEMENTS OF CASH FLOWS

For the years ended December 31 *[Consolidated]*

Cdn$ thousands	Notes	2016	2015
OPERATING ACTIVITIES			
Profit from operations		**26,405**	26,750
Add items not involving cash			
Plant and equipment depreciation	*14*	**1,352**	1,338
Intangible assets amortization	*15*	**2,579**	1,793
Contingent consideration revaluation	*4*	**8,439**	—
Income tax payments	*8*	**(10,474)**	(9,356)
Dividends - Vision	*19*	**50**	50
Changes in non-cash working capital	*22*	**6,270**	(5,805)
Cash provided by operating activities		**34,621**	14,770
INVESTING ACTIVITIES			
Additions to plant and equipment	*14*	**(1,539)**	(1,528)
Additions to computer software	*15*	—	(215)
Acquisition, net of contingent consideration	*4*	—	(15,471)
Cash used in investing activities		**(1,539)**	(17,214)
FINANCING ACTIVITIES			
Proceeds from debt for acquisition	*4,16*	—	16,757
Repayment of revolving and term debt	*16*	**(5,000)**	(2,257)
Financial expenses paid	*16*	**(2,571)**	(2,258)
Purchase of Fund units for cancellation	*17*	**(289)**	(209)
Distributions paid to Exchangeable Shareholders	*17*	**(1,015)**	(893)
Distributions paid to Unitholders	*17*	**(11,520)**	(9,539)
Cash used in financing activities		**(20,395)**	1,601
Net cash flow for the year		**12,687**	(843)
Cash and cash equivalents, beginning of year	*9*	**794**	1,127
Foreign exchange effect		**(224)**	510
Cash and cash equivalents, end of year	*9*	**13,257**	794

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

NOTES TO FINANCIAL STATEMENTS

1. FORMATION OF THE FUND AND ACQUISITION

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"), 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.

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
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 17]*. 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, 2016 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 from the sale of goods, custom moulds and capital equipment. Based on a preliminary evaluation, the adoption of this standard is not expected to have a material impact on the financial statements. We are evaluating the impact to note disclosures. The leases standard requires us to capitalize and amortize the fair market value of leases over their terms. 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 by approximately $19,000 *[note 21]*. We are evaluating the impact to net income and note disclosures.

December 31, 2016 and 2015 [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 was estimated at $2,000 on December 31, 2015 and will be based on future earnings for 2016 or 2017 without limitation, and is payable 90 days after the year then ended. The sellers have elected to be paid based on the 2016 year, therefore, an additional $8,439 of contingent consideration revaluation is reflected in the Statement of income based on the estimate as at December 31, 2016 and will be paid on March 31, 2017. The fair value of net assets acquired including goodwill were finalized at December 31, 2015.

	$		$
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 healthcare products, 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	
	2016	**2015**	**2016**	**2015**
Revenue	**137,373**	109,436	**149,587**	139,994
Long-term assets	**53,038**	54,873	**55,396**	57,571

December 31, 2016 and 2015 [Cdn$ thousands, unless otherwise noted]

6. EXPENSES BY NATURE

	2016	2015
Salaries and wages	**22,783**	19,815
Benefits	**4,475**	4,199
Bonuses	**1,748**	1,465
Long-term incentive plan	**120**	109
Employee compensation	**29,126**	25,588
Inventory sold	**189,377**	164,512
Inventory provisions	**2,656**	2,405
Selling, distribution and other costs	**22,875**	21,972
Depreciation and amortization	**3,931**	3,131
Lease expenses	**5,031**	4,894
Cost of products sold and administrative expenses	**252,996**	222,502

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 $1,922 [2015 – $1,908].

7. EXCEPTIONAL GAINS

Exceptional gains includes a $0.3 million gain on the disposal of manufacturing equipment and a $0.7 million excess of insurance proceeds over the carrying value of goods damaged.

8. INCOME TAXES

Significant components of deferred income taxes are as follows:

December 31, 2016 and 2015 [Cdn$ thousands, unless otherwise noted]

	2016	expense/ (income)	f/x [b]	2015	expense/ (income)	f/x	2014
Deferred tax liabilities							
Plant and equipment	**714**	**(47)**	**(18)**	**779**	33	86	660
Customer relationships [a]	**4,064**	**(665)**	**(75)**	**4,804**	(450)	2,949	2,305
Computer system software	**1**	**(46)**	**(2)**	**49**	(56)	13	92
Patents and trademarks [a]	**1,661**	**(86)**	**(49)**	**1,796**	(85)	262	1,619
Other	**234**	**11**	**(14)**	**237**	12	66	159
Deferred tax assets							
Working capital	**(483)**	**18**	**15**	**(516)**	(37)	(79)	(400)
	6,191	**(815)**	**(143)**	**7,149**	(583)	3,297	4,435

a) 2015 intangibles includes $2,442 for Healthmark; Reversal of intangible assets will not give rise to income taxes

b) f/x = foreign exchange differences

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

Profit from operations	**26,405**	26,750
Financial expenses	**(2,548)**	(2,214)
Contingent consideration revaluation	**8,439**	—
Income subject to income taxes	**32,296**	24,536
Statutory tax rate	*26.7%*	*26.6%*
Income tax expense at statutory tax rate	**8,626**	6,527
Deferred income taxes	**815**	583
Current period adjustments		
Foreign tax differential	**(891)**	(859)
Foreign rate differential	**2,012**	1,815
Withholding tax on Richards Packaging US dividends (@5%)	**473**	525
Other items	**(64)**	17
Current income taxes	**10,971**	8,608

December 31, 2016 and 2015 [Cdn$ thousands, unless otherwise noted]

9. CASH

	2016	2015
Cash at bank	**5,426**	2,857
Demand deposits	**10,019**	—
Issued and outstanding cheques	**(2,188)**	(2,063)
	13,257	794

Cash at bank represents cash clearing accounts at various branches which are netted on an overall basis. At December 31, 2016, cash at bank was net of $494 of credit balances [2015 – $1,427].

10. ACCOUNTS RECEIVABLE

	2016	2015
Current	**21,973**	**20,281**
Up to 60 days past due	**9,287**	**8,574**
61 – 90 days past due	**1,008**	**652**
Over 90 days past due	**1,531**	**1,001**
Trade receivables	**33,799**	**30,508**
Allowance for doubtful accounts[a)]	**(1,033)**	**(852)**
Supplier rebates	**61**	**626**
	32,827	**30,281**

a) Management recorded new provisions of $390 [2015 – $222] and wrote off $210 [2015 – $22]. The remaining non-cash change in the accounts receivable reflects foreign exchange differences.

11. INVENTORY

	2016	2015
Goods purchased for resale	**48,611**	57,862
Goods in transit	**5,152**	5,507
Manufacturing raw materials	**678**	827
Manufactured finished goods	**1,655**	1,766
Reserve for slow moving inventory[a)]	**(8,305)**	(6,523)
	47,791	59,439

a) Management recorded a provision of $2,656 [2015 – $2,405] and recognized write-offs of $496 [2015 – $263]. The remaining non-cash change in inventory provision reflects foreign exchange differences.

December 31, 2016 and 2015 [Cdn$ thousands, unless otherwise noted]

12. PREPAID EXPENSES AND DEPOSITS

	2016	2015
Deposits for commitment to purchase goods	**1,274**	844
Deposits for other commitments	**290**	472
Rent	**642**	570
Insurance	**25**	117
Bank interest	**82**	86
Other deposits	**859**	178
	3,172	2,267

13. ACCOUNTS PAYABLE AND ACCRUALS

	2016	2015
Trade payables	**22,373**	24,360
Rebates	**739**	507
Staffing expenses[a)]	**2,994**	2,318
Professional fees	**428**	419
Leases	**912**	901
Sales tax	**834**	575
Other payables	**1,282**	1,198
	29,562	30,278

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

Included in Trade payables is $584 [2015 – $469] associated with payables to Vision *[note 19]*.

Included in Due to previous shareholder is a U.S.$788 non-interest bearing demand loan owing to a previous shareholder and $98 due from previous shareholders both associated with a previous acquisitions.

December 31, 2016 and 2015 [Cdn$ thousands, unless otherwise noted]

14. PLANT AND EQUIPMENT

	Manufacturing Equipment	Moulds	Warehouse & office	Computer equipment	Leaseholds	Total
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
Additions/Acquisition	**678**	**730**	**61**	**70**	**0**	**1,539**
Fully depreciated assets	**(1,388)**	**(714)**	**(97)**	**(129)**	**(173)**	**(2,501)**
Depreciation	**(344)**	**(700)**	**(96)**	**(149)**	**(63)**	**(1,352)**
Foreign exchange differences	**(6)**	**(0)**	**(3)**	**(12)**	**0**	**(21)**
December 31, 2016						
Carrying value	**2,929**	**4,118**	**1,330**	**899**	**764**	**10,040**
Accumulated Depreciation	**(1,637)**	**(2,853)**	**(460)**	**(580)**	**(601)**	**(6,131)**
Net book value	**1,292**	**1,265**	**870**	**319**	**163**	**3,909**

15. 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% [2015 – 12%]. For periods beyond the budget period, cash flows were extrapolated using long term average growth rates of 1.7% [2015 – 1.6%]. Reasonably possible changes in key assumptions would not cause the recoverable amount to fall below the carrying value.

December 31, 2016 and 2015 [Cdn$ thousands, unless otherwise noted]

	Customer relationships	Patents	Trade-marks	Computer software	Intangible assets	Goodwill
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)	1,767	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)	
Net book value	15,195	1,070	3,744	367	20,376	87,613
Amortization	**(2,113)**	**(323)**		**(143)**	**(2,579)**	
Fully amortized intangibles	**(5,600)**			**(1,950)**	**(7,550)**	
Foreign exchange differences	**(179)**	**(79)**	**(46)**	**(34)**	**(338)**	**(1,287)**
December 31, 2016						
Carrying value	**22,390**	**4,357**	**3,698**	**577**	**31,023**	**86,326**
Accumulated amortization	**(9,487)**	**(3,689)**		**(387)**	**(13,564)**	
Net book value	**12,903**	**668**	**3,698**	**190**	**17,459**	**86,326**

16. REVOLVING AND TERM DEBT

Richards Packaging has available both revolving and term debt credit facilities. On September 30, 2016, the revolving and term debt credit facilities' maturities were extended to September 30, 2019 at a cost of $102. 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 $146 remain to be amortized over the term of the debt. The revolving credit facility availability of $5,000 [2015 – $5,000], which was undrawn at December 31, 2016, bears interest at the prime rate plus a premium of 0.3% to 0.8%. The effective interest rate at December 31, 2016 was 3.3% [2015 – 3.4%]. The term facility of $42,000 [2015 – $47,000] bears interest at the bankers' acceptance borrowing rate plus a premium of 1.25% to 1.8%. The effective interest rate at December 31, 2016 was 2.2% [2015 – 2.3%]. Voluntary repayments of term debt of $5,000 [2015 – $500] were made during the year ended December 31, 2016.

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

December 31, 2016 and 2015 [Cdn$ thousands, unless otherwise noted]

	2016	**2015**
Interest expense	**1,006**	878
Credit card fees	**1,213**	1,129
Bank refinancing fees	**73**	31
Credit facility charges	**256**	176
	2,548	2,214

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 18]*.

17. UNITS AND EXCHANGEABLE SHARES

Number outstanding	**Units basic**	**Weighted average**	**Exchangeable shares**	**Units diluted**	**Weighted average**
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
Units purchased	**(16,000)**			**(16,000)**	
December 31, 2016	**10,846,578**	**10,846,578**	**846,435**	**11,693,013**	**11,693,013**

Exchangeable shares mark-to-market loss reflects a unit price increase during the year ended December 31, 2016 of $5.61 [2015 - $5.89] to $24.79 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 [2015 – anti-dilutive].

Fund Units

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

The Fund initiated a normal course issuer bid on March 14, 2016 to purchase up to 200,000 Units prior to March 13, 2017. During the year, 16,000 Units were purchased [2015 – 11,300 Units] at an average price of $18.05/Unit [2015 – $18.50/Unit]. During 2015, 178,000 exchangeable shares were converted to Units at an average cost of $15.65/Unit.

Contributed surplus

The components of Unitholders' capital include unit capital and contributed surplus. The Fund's purchase of 16,000 Units [2015 – 11,300] resulted in a reduction of $219 [2015 - $152] to $331 [2015 – $550].

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 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 2016 began at $797, or 7.35¢ per Unit, and ended at $1,014, or 9.35¢ per Unit, reflecting the March 2016 distribution increase and unit buyback activity by the Fund. The Board of Trustees approved a reduction in the capital account for distributions made for 2016.

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.

18. 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, 2016 was 1.08 [2015 – 1.53]. In addition, the fixed charge coverage ratio covenant was greater than 2.0 times and the ratio was 4.17 [2015 – 3.54] and the minimum net worth covenant was $70,000 and the net worth was $114,032 [2015 – $116,313].

Management continually assesses the adequacy of its capital structure and makes adjustments in light of changes in economic conditions and the risk characteristics of underlying assets. Adjustments may include changes in distributions, purchases of units for cancellation pursuant to normal course issuer bids, issues of new shares and/or Units, repayments or borrowings under the credit facilities and refinancing the debt to replace existing debt with different characteristics.

December 31, 2016 and 2015 [Cdn$ thousands, unless otherwise noted]

19. RELATED PARTY TRANSACTIONS AND INVESTMENT

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

	2016	2015
Leases of facilities from entities related to certain officers	**912**	881
Product purchases from Vision	**6,299**	6,770

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

	2016	2015		2016	2015
Statement of financial position					
Assets			**Liabilities**		
Current assets	**1,333**	1,616	Current liabilities	**520**	471
Plant and equipment	**664**	276			
Total assets	**1,997**	1,892	**Net assets**	**1,477**	1,421
Statement of net income					
Revenue				**6,299**	6,770
Expenses				**6,144**	6,501
Net income				**155**	269

The increase of $28 in Investment – Vision represents share of net income of $78 [2015 – $134] less dividends of $50 [2015 – 50].

20. FINANCIAL INSTRUMENTS

Fair value

Cash, accounts receivable, accounts payable and accruals, distributions payable, contingent consideration 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 17]*.

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, 2016, 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, 2016 is sufficient to cover impaired accounts *[note 10]*.

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, 2016 is sufficient to cover losses due to inventory obsolescence *[note 11]*.

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 13, 21]*. This is achieved through a combination of cash balances *[note 9]*, availability of credit facilities *[note 16]*, 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 $331 [2015 – $347].

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 $134 has been recorded for the year ended December 31, 2016 [2015 – $178] relating to cross-border transactions. A 1.0% movement in foreign currency rates would have impacted net income by $108 [2015 – $112].

21. COMMITMENTS AND CONTINGENCIES

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

December 31, 2016 and 2015 [Cdn$ thousands, unless otherwise noted]

	Related parties	Third parties	Total
2017	**810**	**4,215**	**5,025**
2018	**787**	**3,821**	**4,608**
2019	**811**	**3,198**	**4,009**
2020	**816**	**1,722**	**2,538**
2021	—	**1,583**	**1,583**
Thereafter	—	**4,205**	**4,205**

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.

22. ADDITIONAL CASH FLOW INFORMATION

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

	2016	2015
Accounts receivable	**(3,061)**	(1,286)
Inventory	**10,537**	(8,815)
Prepaid expenses and deposits	**(924)**	254
Accounts payable and accruals	**(282)**	4,042
	6,270	(5,805)

For the year ended December 31, 2016, the foreign exchange translation loss excluded from the above was $1,185 [2015 – $5,650 gain].

Richards Packaging Income Fund

UNITHOLDER INFORMATION

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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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 5, 2017 at 11:00 a.m.
Brookfield Place
181 Bay Street, Suite 4400
Toronto, Ontario M5J 2T3