

## **AUDITORS' REPORT**

### **To the Unitholders of Richards Packaging Income Fund**

We have audited the consolidated balance sheets of Richards Packaging Income Fund ("the Fund") as at December 31, 2008 and 2007 and the consolidated statements of net income (loss) and comprehensive income, deficit and accumulated other comprehensive income (loss) and cash flows for the years then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

**(signed) "PricewaterhouseCoopers LLP"**

Chartered Accountants, Licensed Public Accountants  
Toronto, Canada  
March 5, 2009

## Richards Packaging Income Fund

### CONSOLIDATED BALANCE SHEETS

[expressed in thousands of dollars]

As at December 31

	2008	2007
	\$	\$
<b>ASSETS [note 9]</b>		
<b>Current</b>		
Cash and cash equivalents	202	103
Accounts receivable	20,458	21,177
Inventory [note 3]	38,254	31,835
Prepaid expenses	1,687	2,267
Income taxes recoverable	416	20
<b>Total current assets</b>	<b>61,017</b>	<b>55,402</b>
Capital assets [note 6]	4,797	4,395
Intangible assets [note 7]	46,569	49,847
Future income tax assets [note 13]	53	74
Goodwill [notes 5 and 8]	77,555	70,187
	<b>189,991</b>	<b>179,905</b>
<b>LIABILITIES AND UNITHOLDERS' EQUITY</b>		
<b>Current</b>		
Bank indebtedness	258	1,259
Accounts payable and accrued liabilities	23,290	20,395
Income taxes payable	—	277
Distributions and dividends payable [notes 10 and 11]	1,135	1,123
Due to previous shareholder of acquired company [note 5]	966	779
Short-term debt and current portion of long-term debt [notes 3 and 9]	—	18,804
<b>Total current liabilities</b>	<b>25,649</b>	<b>42,637</b>
Long-term debt [note 9]	61,916	29,426
Future income tax liabilities [note 13]	11,274	14,176
<b>Total liabilities</b>	<b>98,839</b>	<b>86,239</b>
Non-controlling interests [note 10]	15,177	15,409
<b>Unitholders' equity</b>		
Units [note 11]	94,508	95,526
Deficit	(22,947)	(10,068)
Accumulated other comprehensive income (loss) [note 3]	4,414	(7,201)
	<b>(18,533)</b>	<b>(17,269)</b>
<b>Total unitholders' equity</b>	<b>75,975</b>	<b>78,257</b>
	<b>189,991</b>	<b>179,905</b>
Commitments and contingencies [notes 16 and 17]		
Subsequent event [note 12]		

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

“Wayne McLeod”  
Chair – Audit Committee

“Gerry Glynn”  
CEO – Richards Packaging Inc.

“Enzio Di Gennaro”  
CFO – Richards Packaging Inc.

## Richards Packaging Income Fund

### CONSOLIDATED STATEMENTS OF NET INCOME (LOSS) AND COMPREHENSIVE INCOME, DEFICIT AND ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS) [note 3] [expressed in thousands of dollars except for per Unit amounts]

For the years ended December 31

	2008	2007
	\$	\$
<b>Revenue</b>	<b>187,316</b>	<b>158,008</b>
Cost of products sold	155,004	130,930
	32,312	27,078
General and administrative expenses	10,324	9,695
Foreign currency gain [note 16]	(108)	(291)
<b>Income before under noted items, income taxes and non-controlling interests</b>	<b>22,096</b>	<b>17,674</b>
Amortization		
Capital assets	1,801	1,969
Intangible assets	6,439	5,821
Debt accretion [note 3]	410	229
Interest expense [note 9]	4,498	3,221
Unrealized losses (gains) on financial instruments [note 16]		
Interest rate swap contract	354	309
Foreign currency translation of debt	12,242	(4,628)
<b>Income (loss) before income taxes and non-controlling interests</b>	<b>(3,648)</b>	<b>10,753</b>
Provision for (recovery of) income taxes [note 13]		
Current	1,971	837
Future	(3,869)	(1,974)
Non-controlling interests [note 10]	(1,898)	(1,137)
	(268)	610
<b>Net income (loss) for the year</b>	<b>(1,482)</b>	<b>11,280</b>
<b>Basic income (loss) per Unit [note 11]</b>	<b>(\$0.15)</b>	<b>\$1.10</b>
<b>Diluted income (loss) per Unit</b>	<b>(\$0.15)</b>	<b>\$1.08</b>
Other comprehensive income (loss)		
Unrealized foreign currency translation of US operations	11,615	(3,673)
<b>Comprehensive income for the year</b>	<b>10,133</b>	<b>7,607</b>
<b>STATEMENT OF DEFICIT</b>		
Deficit, beginning of year	(10,068)	(9,843)
Net income (loss) for the year	(1,482)	11,280
Distributions declared to unitholders [note 11]	(11,397)	(11,505)
<b>Deficit, end of year</b>	<b>(22,947)</b>	<b>(10,068)</b>
<b>ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)</b>		
Accumulated other comprehensive loss, beginning of year	(7,201)	(3,528)
Other comprehensive income (loss)	11,615	(3,673)
<b>Accumulated other comprehensive income (loss), end of year</b>	<b>4,414</b>	<b>(7,201)</b>

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

## Richards Packaging Income Fund

### CONSOLIDATED STATEMENTS OF CASH FLOWS

*[expressed in thousands of dollars]*

*For the years ended December 31*

	2008	2007
	\$	\$
<b>OPERATING ACTIVITIES</b>		
Net income (loss) for the year	(1,482)	11,280
Add (deduct) items not involving cash		
Amortization and debt accretion	8,650	8,019
Future income taxes	(3,869)	(1,974)
Non-controlling interests	(268)	610
Unrealized losses (gains) on financial instruments	12,596	(4,319)
	15,627	13,616
Net change in non-cash operating elements of working capital <i>[note 18]</i>	1,224	(4,054)
<b>Cash provided by operating activities</b>	<b>16,851</b>	<b>9,562</b>
<b>INVESTING ACTIVITIES</b>		
Additions to capital assets	(1,972)	(1,238)
Expenditures on patents	(307)	(130)
Acquisition, net of cash acquired of \$622 <i>[note 5]</i>	—	(18,498)
<b>Cash used in investing activities</b>	<b>(2,279)</b>	<b>(19,866)</b>
<b>FINANCING ACTIVITIES</b>		
Increase (decrease) in bank indebtedness	(1,001)	1,259
Proceeds from debt, net	4,020	18,022
Repayment of short and long-term debt	(2,975)	(40)
Proceeds from exchangeable share issue, net	—	1,988
Purchase of trust units for cancellation <i>[note 11]</i>	(1,018)	(246)
Dividends paid to exchangeable shareholders	(2,073)	(821)
Distributions paid to unitholders	(11,409)	(11,507)
<b>Cash provided by (used in) financing activities</b>	<b>(14,456)</b>	<b>8,655</b>
Foreign currency loss	(17)	(106)
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>99</b>	<b>(1,755)</b>
Cash and cash equivalents, beginning of year	103	1,858
<b>Cash and cash equivalents, end of year</b>	<b>202</b>	<b>103</b>

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

## **Richards Packaging Income Fund**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

*[expressed in thousands of dollars except for Unit and per Unit amounts]*

*December 31, 2008*

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#### **1. FORMATION OF THE FUND AND ACQUISITIONS**

Richards Packaging Income Fund [the “Fund”] is an open-ended, limited purpose trust established under the laws of the Province of Ontario by a Declaration of Trust dated February 26, 2004. The Fund completed an initial public offering of trust Units [the “Units”] on April 7, 2004 to facilitate the acquisition of 96% of the shares of Richards Packaging Inc. and an indenture note through a series of transactions for consideration of \$86,161. The ownership position is currently at 85% due to the issuance of shares exchangeable into Units in order to facilitate the financing of two subsequent acquisitions.

The Fund indirectly acquired all the shares of Kay Containers Ltd., Calgary Plastics Container Supply Ltd. and M.A. Foss Distributors Ltd. on November 30, 2004 for consideration of \$7,636, Dispill Inc. on July 29, 2005 for consideration of \$7,514 and The E.J. McKernan Co. on October 31, 2007 for consideration of \$28,587 [note 5].

#### **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The significant accounting policies are summarized as follows:

##### **Principles of consolidation**

The consolidated financial statements include the accounts of the Fund, Richards Packaging Holdings Inc. [“Holdings”], Richards Packaging Inc. [“Richards Canada”], Richards Packaging Holdings (US) Inc., 071907 Inc., Richards Packaging, Inc. [“Richards US”], The E.J. McKernan Company [“McKernan”] and 50% of Vision Plastics Inc. [“Vision”]. Vision, which is jointly controlled, is one of our three plastic container manufacturing plants. The non-controlling interest in the investments of the Fund is 15% [2007 - 15%]. Holdings and its subsidiaries are referred to as “Richards Packaging”.

##### **Revenue recognition**

Revenue is recognized when persuasive evidence of an arrangement exists, significant risks and benefits of ownership are transferred, the sales price to the customer is fixed or is determinable and collection of the resulting receivable is reasonably assured. The significant risks and benefits of ownership are normally transferred in accordance with the shipping terms agreed to with the customer. The Fund estimates and records an allowance for product returns and discounts for each reporting period.

##### **Cash and cash equivalents & bank indebtedness**

Cash and cash equivalents include cash on hand, demand deposits and highly liquid investments with a term to maturity of three months or less at the date of purchase. Bank indebtedness represents issued and outstanding cheques which have not yet been applied to the revolving credit facility. Cash balances with the right of offset are netted against bank indebtedness.

## Richards Packaging Income Fund

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

*[expressed in thousands of dollars except for Unit and per Unit amounts]*

*December 31, 2008*

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#### **Inventory**

Raw materials and products available for sale are valued at the lower of cost and net realizable value. Cost is determined on a first-in, first-out basis.

#### **Capital assets**

Capital assets are initially recorded at cost. Repairs and maintenance are charged to income as incurred. Amortization is computed using the straight-line or diminishing balance method over the remaining estimated useful lives of the capital assets as outlined below:

Manufacturing equipment	straight-line over 7 years
Moulds	straight-line over 4 years
Computer equipment	30% diminishing balance
Computer software and systems implementation	straight-line over 5 years
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. Costs for patents also include legal defense expenditures. Customer relationships and contracts are amortized over 10 or 15 years and patents over 12 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 the fair value of the net assets acquired.

Management performs an impairment test on its goodwill annually, or more frequently if circumstances indicate a possible impairment. The carrying amount of goodwill is reviewed for possible impairment by conducting a two-step test. In the first step, fair value of the reporting unit, as determined by discounted cash flows, is compared to its carrying value. If the fair value is less than the carrying value, a second step will be conducted whereby the fair value of goodwill is determined on the same basis as in a business combination. If the fair value of goodwill is less than its carrying value, goodwill will then be written down to its estimated fair value.

#### **Long-lived assets**

Long-lived assets are comprised of capital assets and intangible assets which are reviewed for impairment whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. For purposes of evaluating the recoverability of long-lived assets, a test is performed using undiscounted future net cash flows. Should impairment exist, the loss would be measured as the difference between the carrying value and the fair value and recognized by way of

## **Richards Packaging Income Fund**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

*[expressed in thousands of dollars except for Unit and per Unit amounts]*

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an additional current period amortization charge. Management has not identified any such impairment losses to date.

#### **Income taxes**

The consolidated entities of the Fund follow the liability method to account for income taxes whereby future tax assets and liabilities are determined based on temporary differences between the carrying amounts and the tax basis of assets and liabilities. Future tax assets and liabilities are measured using the substantively enacted tax rates that will be in effect when these differences are expected to reverse. Future tax assets are recognized only to the extent that it is more likely than not that the assets will be realized.

#### **Foreign currency translation**

The unit of measure for the Fund and its investments, except for Richards Packaging subsidiaries in the United States, is the Canadian dollar and accounts in foreign currencies have been translated into Canadian dollars. Monetary items are recorded at exchange rates in effect at the consolidated balance sheet dates and non-monetary items are recorded at the exchange rates in effect on the date of the transaction. Revenue and expenses are recorded at average exchange rates prevailing during the year, except for amortization, which is translated at rates prevailing when the related assets were acquired. Gains and losses arising from foreign currency translations are included in income.

Richards Packaging subsidiaries in the United States are treated as self sustaining foreign operations. All assets and liabilities are translated at exchange rates in effect on the consolidated balance sheet dates. Revenue and expenses, including amortization, are translated at average exchange rates prevailing during the year. Any resulting gains or losses are included in unitholders' equity as accumulated other comprehensive income (loss).

#### **Derivative financial instruments**

Derivative financial instruments are utilized from time to time to reduce interest rate risks on Richards Packaging's debt. Management does not enter into financial instruments for trading or speculative purposes. Richards Packaging has not designated its interest rate swap contract as a hedge for accounting purposes and, accordingly, records the fair value of these derivatives using a mark-to-market valuation basis, with changes during the year recognized in income as unrealized gains/losses on financial instruments.

#### **Use of estimates**

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions which affect the reported amounts of assets and liabilities, and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the amounts of revenue and expenses recognized for the period reported. By their nature, these estimates are subject to measurement uncertainty and are reviewed periodically and adjustments, if necessary, are made in the period in which they are identified. Actual results may differ from these estimates.

## **Richards Packaging Income Fund**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

*[expressed in thousands of dollars except for Unit and per Unit amounts]*

*December 31, 2008*

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#### **Comparative financial statements**

Certain amounts in the comparative financial statements have been reclassified from statements previously presented to conform to the presentation of the 2008 consolidated financial statements.

#### **3. CHANGE IN ACCOUNTING POLICIES**

Effective January 1, 2008 the Fund adopted the following new Canadian Institute of Chartered Accountants Handbook recommendations:

##### **Inventories** *[Section 3031]*

This standard relates to the accounting for inventories and revises and enhances the requirements for assigning costs to inventories. It also outlines the treatment for the subsequent write-up of inventory previously written-down to net realizable value requiring separate disclosure for inventories that were written-down to net realizable value and recognition of the expense or income resulting from changes in value. Richards Packaging has no partially written-down inventory that would require separate disclosure as at December 31, 2008. Given the short-term nature of our inventory there was no impact to changing valuation policy of raw material from the lower of cost and replacement cost to the lower of cost and net realizable value. Finished goods represent 98% of total inventory as at December 31, 2008. Richards Packaging increased its obsolescence provision by \$327 during the year.

##### **Capital Disclosures** *[Section 1535]*

This standard establishes requirements for the disclosure of qualitative and quantitative information about an entity's capital structure and how it is managed *[note 12]*.

##### **Financial Instruments – Disclosure and Presentation** *[Sections 3862 and 3863]*

These standards replace *Section 3861, Financial Instruments-Disclosure and Presentation*, revising and enhancing disclosure requirements. These new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how Richards Packaging manages those risks *[note 16]*.

Effective January 1, 2007 the Fund adopted the following new Canadian Institute of Chartered Accountants Handbook recommendations:

##### **Comprehensive Income and Equity** *[Sections 1530 and 3251]*

Comprehensive income and its components have been presented as part of the financial statements. Gains and losses from the translation of Richards Packaging subsidiaries in the United States, our self sustaining foreign operations, are presented in our statement of comprehensive income as other comprehensive income (loss). Previously, these gains and losses were included in unitholders' equity as cumulative translation adjustment.

## **Richards Packaging Income Fund**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

*[expressed in thousands of dollars except for Unit and per Unit amounts]*

*December 31, 2008*

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#### **Financial Instruments – Recognition and Measurement** *[Section 3855]*

Financial assets and liabilities are classified as either: held for trading, available for sale, held to maturity, loans and receivables or other liabilities. Financial assets classified as held for trading or available for sale are measured at fair value. Held to maturity, loans and receivables and other liabilities are measured initially at fair value then at amortized cost over the term. Initial differences between fair value and maturity value are amortized using the effective interest rate method. Given the short-term nature of our financial assets and liabilities and that our debt facilities bear interest at variable rates there was no material impact on 2007 or prior periods. Deferred financing fees of \$380 were deducted from long-term debt as of January 1, 2007 and, together with additional fees paid, are amortized over the effective interest period as debt accretion. Previously, these deferred financing fees were deferred and amortized using the straight line method.

In accordance with the transitional provisions these new standards were adopted on a prospective basis however, prior period unrealized gains and losses related to the translation of self sustaining foreign operations are now included in accumulated other comprehensive loss. Adoption of these standards did not have a significant impact on the Fund's earnings and cash flows.

#### **4. NEW ACCOUNTING PRONOUNCEMENTS**

##### **Goodwill and Intangible Assets** *[Section 3064]*

Effective January 1, 2009, the Fund will adopt the new accounting standards for Goodwill and Intangible Assets. This new pronouncement establishes standards for the recognition, measurement, and disclosure of goodwill and intangible assets. Management is currently assessing the impact of this standard on the consolidated financial statements.

#### **5. ACQUISITION**

On October 31, 2007, Richards Packaging indirectly acquired all the shares of The E.J McKernan Co., a direct mail, catalogue and telemarketing packaging distributor and the largest provider of surplus packaging in the United States, for \$28,587 (U.S.\$30,095) including acquisition costs of \$90 (U.S.\$95). The consideration was satisfied by a cash payment of \$18,998 (U.S.\$20,000), which was financed by a draw of \$17,098 on the acquisition credit facility *[note 9]* and by a \$2,000 private placement of exchangeable shares to the President and the CEO of Richards Packaging *[note 10]*. The balance of the purchase price of \$9,499 (U.S.\$10,000) was satisfied by the issuance of 1,052,632 shares exchangeable into 1,052,632 Units of the Fund *[note 10]*. The market value of the Units were used as a basis to value the exchangeable shares.

This acquisition has been accounted for by the purchase method. Consequently, the results of operations and cash flows are included in these consolidated financial statements from the effective date of acquisition. The allocation of the purchase price is outlined below:

## Richards Packaging Income Fund

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

[expressed in thousands of dollars except for Unit and per Unit amounts]

December 31, 2008

	\$		\$
Current assets	9,059	Current liabilities	2,508
Capital assets	335	Due to previous shareholder	749
Trademark	2,850	Future income tax liabilities	4,544
Customer relationships	9,119		
<b>Total assets acquired</b>	<b>21,363</b>	<b>Total liabilities assumed</b>	<b>7,801</b>
Fair value of net assets acquired			13,562
Goodwill [note 8]			15,025
<b>Purchase price</b>			<b>28,587</b>

#### 6. CAPITAL ASSETS

	Cost \$	Accumulated amortization \$	Net book value	
			2008 \$	2007 \$
Manufacturing equipment	5,032	3,716	1,316	1,219
Moulds	4,458	3,085	1,373	1,378
Computer equipment	960	588	372	380
Computer software and systems implementation	1,512	1,203	309	582
Warehouse and office equipment	1,192	537	655	587
Leasehold improvements	975	203	772	249
	<b>14,129</b>	<b>9,332</b>	<b>4,797</b>	<b>4,395</b>

#### 7. INTANGIBLE ASSETS

	Cost \$	Accumulated amortization \$	Net book value	
			2008 \$	2007 \$
Customer relationships and contracts	65,056	25,823	39,233	43,131
Patents	4,697	1,265	3,432	3,521
Trademarks	3,904	—	3,904	3,195
	<b>73,657</b>	<b>27,088</b>	<b>46,569</b>	<b>49,847</b>

Intangible assets amortization is not deductible for tax purposes.

## Richards Packaging Income Fund

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

[expressed in thousands of dollars except for Unit and per Unit amounts]

December 31, 2008

<b>8. GOODWILL</b>	<b>2008</b>	<b>2007</b>
	\$	\$
<b>Goodwill, beginning of year</b>	<b>70,187</b>	<b>57,276</b>
Acquired on acquisition [note 5]	—	<b>15,025</b>
Foreign currency translation gain (loss)	<b>7,368</b>	<b>(2,114)</b>
<b>Goodwill, end of year</b>	<b>77,555</b>	<b>70,187</b>

The foreign currency translation gain (loss) is associated with the goodwill related to Richards Packaging subsidiaries in the United States. Goodwill is not deductible for tax purposes.

### 9. SHORT- AND LONG-TERM DEBT

On June 3, 2008 Richards Packaging Inc. converted the then outstanding balance of the revolving and acquisition credit facilities into a new term debt facility bringing the total term debt to U.S.\$52,000 and providing up to U.S.\$10,000 in credit for future acquisitions. The interest premium over LIBOR, or prime rate, was increased by 0.75% to reflect current market conditions. On November 30, 2008 U.S.\$1,000 of the term debt was repaid. On December 10, 2008 the acquisition credit facility was cancelled and additional covenant relief was provided with the interest premium over LIBOR increasing an additional 1.00% [note 12]. The term loan is presented net of unamortized debt issue costs of \$539.

Debt facility	Due date	Interest rate	Outstanding balance		Total facilities
			2008	2007	
			\$	\$	\$
Revolving credit	June 3, 2009	See [i] below	—	<b>1,200</b>	<b>7,000</b>
Acquisition credit	December 10, 2008	See [ii] below	—	<b>17,577</b>	—
Term loan	August 5, 2008	See [iii] below	—	<b>27</b>	—
<b>Short-term debt and current portion of long-term debt</b>			<b>—</b>	<b>18,804</b>	<b>7,000</b>
<b>Long-term debt</b>	June 3, 2011	See [iv] below	<b>61,916</b>	<b>29,426</b>	<b>61,916</b>

[i] The revolving credit facility consists of an operating line of credit of \$7,000 [2007 – \$7,000] bearing interest at the prime rate plus a premium of 1.75% to 2.75%. The effective interest rate at December 31, 2008 is 6.2% [2007 – 6.9%].

[ii] The acquisition credit facility consisted of a line of credit of U.S.\$10,000 [2007 – U.S.\$18,000] bearing interest at LIBOR plus a premium of 2.0% to 2.75%. The effective interest rate prior to cancellation was 5.3% [2007 – 6.7%].

[iii] The term loan bore interest at the prime rate plus 0.75% with monthly principal repayments of \$3. The effective interest rate at August 31, 2008 was 5.8% [2007 – 6.9%].

[iv] The term loan consists of a U.S.\$51,000 loan [2007 – U.S.\$30,000] bearing interest at LIBOR plus a premium of 2.75% to 3.75%. The effective interest rate at December 31, 2008 is 6.4% subject to an interest rate swap on U.S.\$30,000 through June 3, 2009 [2007 – 6.8%].

## Richards Packaging Income Fund

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

[expressed in thousands of dollars except for Unit and per Unit amounts]

December 31, 2008

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Interest expense for the year ended December 31, 2008 is comprised as follows: term loan, revolving credit and acquisition credit interest of \$3,717 [2007 – \$2,625], credit card commission charges of \$576 [2007 – \$340] and credit facility charges of \$205 [2007 – \$256].

Richards Canada has provided a first charge over all of its assets as collateral for the revolving credit facility and the term loan.

#### 10. NON-CONTROLLING INTERESTS

The non-controlling interests represent exchangeable shares issued by Richards Packaging to officers on the initial public offering [note 1] and in connection with two business acquisitions.

	Issue date	Number of shares	\$
<b>Balance, December 31, 2006</b>		<b>524,685</b>	<b>4,291</b>
Shares issued to officers, net	Oct. 31, 2007	<b>216,216</b>	<b>1,988</b>
Consideration for acquisition, net [note 5]	Oct. 31, 2007	<b>1,052,632</b>	<b>9,467</b>
Other comprehensive loss allocation			<b>(8)</b>
Share of income			<b>610</b>
Dividends			<b>(939)</b>
<b>Balance, December 31, 2007</b>		<b>1,793,533</b>	<b>15,409</b>
Other comprehensive income allocation			<b>2,133</b>
Share of loss			<b>(268)</b>
Dividends			<b>(2,097)</b>
<b>Balance, December 31, 2008</b>		<b>1,793,533</b>	<b>15,177</b>

The exchangeable shares are redeemable by Richards Packaging on the fifth anniversary of their issue date, or prior to that date in limited circumstances, 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 exchangeable shares issued as consideration for the McKernan acquisition are retractable on a limited basis by the shareholder in increments of up to U.S.\$2,000 at the end of each issue anniversary however, the Fund has the option to settle the redemption in cash. Exchangeable shares carry the right to vote at any meeting that unitholders are entitled to vote on the same basis.

Dividends paid to the exchangeable shareholders are not subordinated to distributions to unitholders and are declared on the same basis net of applicable taxes. Dividends are made monthly to shareholders of record on the last business day of each month and paid on the 15<sup>th</sup> day of the following month.

## Richards Packaging Income Fund

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

*[expressed in thousands of dollars except for Unit and per Unit amounts]*

December 31, 2008

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#### 11. UNITS

The Fund initiated a normal course issuer bid on November 15, 2007 to purchase up to 307,700 Units prior to November 14, 2008. During the year, 116,305 Units [2007-25,300] were purchased for an average price of \$8.75/Unit [2007 – \$9.25/Unit].

	Number of Units	\$
<b>Balance, December 31, 2006</b>	<b>10,256,327</b>	<b>95,772</b>
Units purchased, including costs incurred	(25,300)	(246)
<b>Balance, December 31, 2007</b>	<b>10,231,027</b>	<b>95,526</b>
Units purchased, including costs incurred	(116,305)	(1,018)
<b>Balance, December 31, 2008</b>	<b>10,114,722</b>	<b>94,508</b>
	<b>2008</b>	<b>2007</b>
<b>Weighted average number of Units outstanding</b>		
Basic	10,158,325	10,253,545
Diluted	11,951,858	10,990,284

#### 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.

#### Distributions

Distributions are made monthly to unitholders of record on the last business day of each month and paid on the 15<sup>th</sup> day of the following month. Distributions declared monthly during the year ended December 31, 2008 began at \$957 and ended at \$946 reflecting the unit buyback activity by the Fund [2007 – began at \$959 and ended at \$957] or 9.35¢ per Unit [2007 – 9.35¢ per Unit].

#### Long-term incentive plan

Key senior management of Richards Packaging are eligible to participate in the long-term incentive plan [the “LTIP”]. Units awarded under the LTIP will vest over a three- year period, with one-third

## Richards Packaging Income Fund

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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of the Units vesting each year. The contributions to the LTIP ceased as of April 4, 2007 and the yearly vesting period is to be completed by 2009.

#### 12. CAPITAL STRUCTURE

The Fund's capital consists of unitholders' equity, non-controlling interests represented by exchangeable shareholders and secured credit facilities. Capital levels are maintained to meet the following objectives: (i) optimizing the cost of capital at acceptable risk levels while providing an appropriate return to its unitholders and shareholders; (ii) balancing the interests of equity, non-controlling interests and debt holders; (iii) maintaining compliance with financial covenants; and (iv) preserving financial flexibility to benefit from potential opportunities as they arise. The leverage ratio covenant is 3.25 times until June 30, 2009 and is reduced to 2.75 times as at September 30, 2009. As of December 31, 2008 our leverage ratio was 2.78. In addition, the Fund is required to maintain a fixed charge coverage ratio of greater than 2.50x and a minimum net worth of \$70,000.

The Fund 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 and dividends, purchases of units for cancellation pursuant to normal course issuer bids, issues of new shares and/or Units, and refinancing the debt to replace existing debt with different characteristics. Subsequent to year end the Trustees temporarily suspended distributions. The resulting surplus cash flow is expected to be used to repay debt.

#### 13. INCOME TAXES

The provision for (recovery of) income taxes differs from the provision computed at statutory rates due to the various adjustments outlined below:

	2008	2007
	\$	\$
Income (loss) before income taxes and non-controlling interests	(3,648)	10,753
Distributions to unitholders, not subject to income taxes in the Fund	(9,534)	(9,751)
<b>Income (loss) subject to income taxes</b>	<b>(13,182)</b>	<b>1,002</b>
Statutory tax rate	32.5%	36.1%
Income taxes expense (recovery) at statutory tax rate	(4,284)	362
<b>Future income tax recovery</b>	<b>3,869</b>	<b>1,974</b>
Current period adjustments		
Change in enacted tax rates	—	(672)
Foreign currency translation of debt	2,991	(722)
Withholding tax	327	423
Other items	(932)	(528)
<b>Current income taxes</b>	<b>1,971</b>	<b>837</b>

## Richards Packaging Income Fund

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Significant components of future income tax assets and liabilities are as follows:

	2008	2007
	\$	\$
<b>Future income tax assets – long-term</b>		
Capital assets	(13)	(5)
Customer relationships and contracts	—	(334)
Equity placement fees	31	269
Loss for income taxes not utilized	35	144
Other	—	—
	<b>53</b>	<b>74</b>
<b>Future income tax liabilities – long term</b>		
Capital assets	345	348
Unrealized gains on financial instruments	(208)	1,003
Customer relationships and contracts	14,666	15,360
Patents	1,044	1,021
Equity placement fees	(74)	(356)
Loss for income taxes not utilized	(3,924)	(2,572)
Working capital	(550)	(408)
Other	(25)	(220)
	<b>11,274</b>	<b>14,176</b>

In addition to the equity placement fees accounted for above, the Fund has approximately \$108 of fees available to be deducted over the next two years [2007 – \$514] and Richards Canada has \$1,103 of realized net capital losses available, for which a valuation allowance has been taken, to be deducted indefinitely. The reversal of the patents and customer relationships and contracts accounts above will not give rise to income taxes payable.

During 2007, the Income Tax Act was amended to change the manner in which most publicly traded income trusts such as the Fund and the distributions from such trusts are taxed. Generally, the new rules apply an entity level tax on income earned by the trust at a rate approximately equal to the tax rate applicable to income earned by a Canadian public corporation, and treat the distributions of such income received by unitholders as taxable dividends received from a Canadian corporation. The new rules will be effective in 2011 unless the Fund were to grow, through the issuance of units and/or convertible debt, in excess of \$50,000 per year.

Richards Packaging's capital structure involves commercially reasonable intercompany financing generating interest expense, which serves to reduce income and therefore income taxes payable in the United States. Management has taken steps to ensure that these financings are commercially reasonable, however there can be no assurance that the Internal Revenue Service will not challenge the tax filing position taken by Richards Packaging subsidiaries in the United States, in which case some or all of the otherwise deductible interest would be treated as non-deductible distributions.

## Richards Packaging Income Fund

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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#### 14. RELATED PARTY TRANSACTIONS

Richards Packaging entered into the following related party transactions, which were measured at the exchange amount:

	2008	2007
	\$	\$
Leases of facilities from certain officers and their related entities	803	476
Product purchases from Vision [note 15]	8,098	8,892

#### 15. JOINT VENTURE

Richards Canada owns a 50% interest in a joint venture, Vision. Financial information relating to the joint venture before inter-company eliminations is as follows:

	2008	2007		2008	2007
	\$	\$		\$	\$
<b>Balance sheet</b>					
<b>Assets</b>			<b>Liabilities</b>		
Current assets	1,355	1,690	Current liabilities	528	752
Capital assets	704	989	Long-term debt	—	55
Future income taxes	42	—	Future income taxes	—	41
<b>Total assets</b>	<b>2,101</b>	<b>2,679</b>	<b>Total liabilities</b>	<b>528</b>	<b>848</b>
<b>Statement of income</b>					
Revenue				8,098	8,892
Expenses				8,356	9,091
<b>Net loss</b>				<b>(258)</b>	<b>(199)</b>
<b>Additional information</b>					
Cash provided by operating activities				279	250
Cash used in investing activities				25	186
Cash used in financing activities				55	82

Since all of the sales of Vision are to Richards Canada, the above table reflects 100% of the balances and transactions of Vision.

## Richards Packaging Income Fund

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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#### 16. FINANCIAL INSTRUMENTS

##### Fair value

Cash and cash equivalents, accounts receivable, bank indebtedness, accounts payable and accrued liabilities, distributions and dividends payable and due to previous shareholder are all short-term in nature and, as such, their carrying values approximate fair values. Cash and cash equivalents and bank indebtedness are classified as held for trading and accounts receivable are classified as loans and receivables. All financial liabilities other than bank indebtedness are classified as other financial liabilities.

The fair value of short- and long-term debt approximates the carrying value as these financial instruments bear interest at rates comparable to current market rates.

The fair value of the interest rate swap contract represents an unrealized loss of \$663 [2007- \$309].

##### Credit risk

Richards Packaging's financial assets that are exposed to credit risk consist primarily of trade accounts receivable arising from the sale of goods. Other credit risks include counter party exposure associated with the fixed interest rate swap contract in the event that there is non-performance by the counterparty to the contract. As at December 31, 2008, there is no risk because the mark-to-market value of the interest rate swap contract represented a financial liability.

Concentration of credit risk with respect to accounts receivable is limited due to the large number of customers and geographical dispersion. As at December 31, 2008 and 2007, no customer represented 10% or more of accounts receivable or sales. The accounts receivable amount recorded in the balance sheet is net of an allowance of doubtful accounts estimated based on prior experience and the aging of the individual customer account.

Past due accounts are aged as follows:	2008	2007
	\$	\$
Not impaired		
Up to 60 days past due	7,131	8,485
61 – 90 days past due	838	446
Impaired		
Over 90 days past due	624	591

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 of December 31, 2008 is sufficient to cover current accounts and impaired accounts.

## Richards Packaging Income Fund

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#### Liquidity risk

Richards Packaging's approach to managing liquidity risk is to ensure that sufficient funds are available to meet financial obligations as they come due *[note 17]*. This is achieved through a combination of cash balances, availability to credit facilities *[note 9]*, surplus cash flow from operations, distribution policy and matching the maturities of financial assets and liabilities.

#### Interest rate risk

Richards Packaging is exposed to interest rate risk due to variable interest rates on the revolving credit facility and term loans. During 2007, Richards Packaging entered into interest rate swap contract with approved creditworthy counterparties to June 5, 2009 on a notional principal amount equal to the U.S.\$30,000 term debt outstanding. The mark-to-market valuation of the swap contract as at December 31, 2008 gave rise to an unrealized loss of \$354 [2007 – \$309]. The remaining U.S.\$21,000 term debt was subject to variable interest rates and a 1.0% movement in interest rates would have impacted net income by \$150.

#### Foreign currency risk

Richards Packaging is exposed to U.S./Cdn. currency fluctuations on cross-border transactions and on translation of U.S. dollar denominated debt and the earnings of Richards Packaging subsidiaries in the United States. A foreign currency gain of \$108 has been recorded for the year ended December 31, 2008 [2007 – \$291]. A foreign currency loss of \$12,242 [2007 – \$4,628 gain] from the translation of the U.S. dollar denominated debt has been recorded as a result of the change in the U.S./Cdn. rate from \$0.99 to \$1.23 for the year ended December 31, 2008. A movement of U.S./Cdn. 1¢ would have impacted net income by \$500.

### 17. COMMITMENTS AND CONTINGENCIES

The minimum rental payments, exclusive of occupancy charges, required under the leases for Richards Packaging's premises are as follows:

	Related parties	Other	Total
	\$	\$	\$
2009	551	2,913	3,464
2010	568	1,596	2,164
2011	585	1,475	2,060
2012	602	1,516	2,118
2013	620	1,402	2,022
Thereafter	4,024	1,820	5,844

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 of Richards Packaging.

## Richards Packaging Income Fund

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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#### 18. CONSOLIDATED STATEMENTS OF CASH FLOWS

Components of cash and cash equivalents consist entirely of cash. The net change in non-cash operating elements of working capital consists of the following:

	2008	2007
	\$	\$
Accounts receivable	2,309	868
Inventory	(1,797)	(2,147)
Prepaid expenses	728	(1,203)
Accounts payable and accrued liabilities	616	(1,161)
Income taxes recoverable/payable	(632)	(411)
	<b>1,224</b>	<b>(4,054)</b>

The cash flow impact of interest and income taxes consists of the following:

	2008	2007
	\$	\$
Interest paid	4,484	3,165
Income taxes paid	2,726	894

#### Non cash investing and financing activities

On October 31, 2007, Richards Packaging acquired all the outstanding shares of McKernan with U.S.\$10,000 of the purchase price being settled by the issuance of 1,052.632 exchangeable shares valued at U.S.\$9.50 per share [notes 5 and 10].

#### 19. SEGMENTED INFORMATION

Richards Packaging operations consist of one reporting segment, principally in the distribution of plastic and glass containers. The geographic distribution of revenue, capital assets and goodwill is as follows:

	Canada		United States	
	2008	2007	2008	2007
	\$	\$	\$	\$
Revenue	104,680	104,925	82,636	53,083
Capital assets and goodwill	41,672	41,531	40,680	33,051

Revenue by geographic segment is determined based on the country of shipment.