

March 4, 2011

## **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, which comprise the consolidated balance sheets as at December 31, 2010 and 2009 and the consolidated statements of net income and comprehensive income, changes in equity and non-controlling interests and cash flows for the years then ended, and the related notes including a summary of significant accounting policies.

### **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 Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of the 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 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 audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

An audit includes 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 as at December 31, 2010 and 2009 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

## Richards Packaging Income Fund

### STATEMENTS OF NET INCOME AND COMPREHENSIVE INCOME

For the years ended December 31

[Consolidated]

<i>Cdn\$ thousands</i>	Notes	2010 \$	2009 \$
<b>Revenue</b>	3	<b>179,010</b>	189,112
Cost of products sold	4	<b>155,092</b>	163,461
General and administrative expenses	4	<b>10,407</b>	11,170
Foreign currency loss	17	<b>16</b>	452
Patent defense legal costs	18	<b>383</b>	145
<b>Profit from operations</b>		<b>13,112</b>	13,884
Financial expenses	13	<b>3,446</b>	4,194
Gains on financial instruments	17	—	(7,662)
<b>Income before income taxes and non-controlling interest</b>		<b>9,666</b>	17,352
Income tax expense (income)			
Current taxes	5	<b>1,523</b>	2,766
Future taxes	5	<b>(2,106)</b>	(1,709)
		<b>(583)</b>	1,057
Non-controlling interests	14	<b>1,483</b>	2,455
<b>Net income for the year</b>		<b>8,766</b>	13,840
Basic and diluted income per Unit	14	<b>\$0.87</b>	\$1.37
Other comprehensive losses			
Net investment translation - Richards Packaging US		<b>(2,654)</b>	(8,589)
<b>Comprehensive income for the period</b>		<b>6,112</b>	5,251

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

**Richards Packaging Income Fund**

**BALANCE SHEETS**

*As at December 31*

*[Consolidated]*

<i>Cdn\$ thousands</i>	<b>Notes</b>	<b>2010</b>	<b>2009</b>
		\$	\$
<b>ASSETS</b>			
<b>Current</b>			
Cash and cash equivalents	6	1,144	2,071
Accounts receivable	7	18,766	18,873
Inventory	8	35,187	31,289
Prepaid expenses	9	2,365	2,010
Income taxes recoverable	5, 19	700	10
<b>Total current assets</b>		<b>58,162</b>	<b>54,253</b>
Plant and equipment	3, 11	4,031	4,180
Intangible assets	3, 12	31,108	37,514
Goodwill	3, 12	70,390	72,010
		<b>163,691</b>	<b>167,957</b>
<b>LIABILITIES AND UNITHOLDERS' EQUITY</b>			
<b>Current</b>			
Accounts payable	10	18,618	18,604
Distributions and dividends payable	14	773	780
Due to previous shareholder of acquired company	10	784	825
<b>Total current liabilities</b>		<b>20,175</b>	<b>20,209</b>
Term debt	13	48,000	47,402
Future income tax	5	6,239	8,560
<b>Total liabilities</b>		<b>74,414</b>	<b>76,171</b>
Non-controlling interests	14	8,575	15,081
<b>Unitholders' equity</b>			
Units capital	14, 15	90,229	94,349
Deficit		(2,698)	(13,469)
Accumulated other comprehensive loss		(6,829)	(4,175)
<b>Total unitholders' equity</b>		<b>80,702</b>	<b>76,705</b>
		<b>163,691</b>	<b>167,957</b>
Commitments and contingencies	18		

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

*"Wayne McLeod"*  
Chair – Audit Committee

*"Gerry Glynn"*  
CEO – Richards Packaging Inc.

*"Enzio Di Gennaro"*  
CFO – Richards Packaging Inc.

**Richards Packaging Income Fund**

**STATEMENTS OF CHANGES IN EQUITY AND NON-CONTROLLING INTERESTS**

As at December 31

[Consolidated]

**UNITHOLDERS' EQUITY**

<i>Cdn\$ thousands</i>	<b>Unit Capital</b>	<b>Deficit</b>	<b>AOCL <sup>a)</sup></b>	
	\$	\$	\$	\$
<b>December 31, 2008</b>	94,508	(23,433)	4,414	75,489
Share of comprehensive income		13,840	(8,589)	5,251
Distributions		(3,876)		(3,876)
Exchangeable share conversion	150			150
Purchased for cancellation, net	(309)			(309)
<b>December 31, 2009</b>	94,349	(13,469)	(4,175)	76,705
Share of comprehensive income		<b>8,766</b>	<b>(2,654)</b>	<b>6,112</b>
Distributions		<b>(7,933)</b>		<b>(7,933)</b>
Reclass to reflect return of capital	<b>(9,938)</b>	<b>9,938</b>		—
Exchangeable share conversion	<b>6,273</b>			<b>6,273</b>
Purchased for cancellation, net	<b>(455)</b>			<b>(455)</b>
<b>December 31, 2010</b>	<b>90,229</b>	<b>(2,698)</b>	<b>(6,829)</b>	<b>80,702</b>

**NON-CONTROLLING INTERESTS**

<i>Cdn\$ thousands</i>	<b>Exchangeable shares</b>	<b>Deficit</b>	<b>AOCL <sup>a)</sup></b>	
	\$	\$	\$	\$
<b>December 31, 2008</b>	16,412	(3,234)	1,957	15,135
Share of comprehensive income		2,455	(1,611)	844
Dividends		(748)		(748)
Exchangeable share conversion	(173)	22	1	(150)
<b>December 31, 2009</b>	16,239	(1,505)	347	15,081
Share of comprehensive income		<b>1,483</b>	<b>(339)</b>	<b>1,144</b>
Dividends		<b>(1,377)</b>		<b>(1,377)</b>
Exchangeable share conversion	<b>(6,439)</b>	<b>420</b>	<b>(254)</b>	<b>(6,273)</b>
<b>December 31, 2010</b>	<b>9,800</b>	<b>(979)</b>	<b>(246)</b>	<b>8,575</b>

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

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

**Richards Packaging Income Fund**

**STATEMENTS OF CASH FLOWS**

*For the years ended December 31*

*[Consolidated]*

<i>Cdn\$ thousands</i>	<b>Notes</b>	<b>2010</b>	<b>2009</b>
		\$	\$
<b>OPERATING ACTIVITIES</b>			
Net income for the year		<b>8,766</b>	13,840
Add (deduct) items not involving cash			
Plant and equipment depreciation	<i>11</i>	<b>1,435</b>	1,500
Intangible assets amortization	<i>12</i>	<b>6,485</b>	6,664
Debt fee accretion	<i>13</i>	<b>316</b>	220
Future income taxes	<i>5</i>	<b>(2,106)</b>	(1,709)
Non-controlling interest	<i>14</i>	<b>1,483</b>	2,455
Gains on financial instruments	<i>17</i>		
Interest rate swap contract		—	(659)
Foreign currency translation of debt		—	(7,003)
		<b>16,379</b>	15,308
Changes in non-cash working capital	<i>19</i>	<b>(6,025)</b>	1,528
<b>Cash provided by operating activities</b>		<b>10,354</b>	16,836
<b>INVESTING ACTIVITIES</b>			
Additions to plant and equipment	<i>11</i>	<b>(1,366)</b>	(1,335)
Expenditures on computer systems software	<i>12</i>	<b>(655)</b>	(136)
<b>Cash used in investing activities</b>		<b>(2,021)</b>	(1,471)
<b>FINANCING ACTIVITIES</b>			
Increase in bank indebtedness	<i>6</i>	—	(221)
Repayment of term debt	<i>13</i>	<b>(47,719)</b>	(7,731)
Proceeds from term debt	<i>13</i>	<b>48,000</b>	—
Purchase of trust units for cancellation	<i>14</i>	<b>(455)</b>	(309)
Dividends paid to exchangeable shareholders	<i>14</i>	<b>(1,427)</b>	(819)
Distributions paid to unitholders	<i>14</i>	<b>(7,890)</b>	(4,161)
<b>Cash used in financing activities</b>		<b>(9,491)</b>	(13,241)
Foreign currency gain (loss)		<b>231</b>	(255)
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>(927)</b>	1,869
Cash and cash equivalents, beginning of year	<i>6</i>	<b>2,071</b>	202
<b>Cash and cash equivalents, end of year</b>	<i>6</i>	<b>1,144</b>	2,071

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

## **Richards Packaging Income Fund**

### **NOTES TO FINANCIAL STATEMENTS**

*December 31, 2010*

*[Cdn\$ thousands]*

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

Richards Packaging Income Fund [the “Fund”] is an open-ended, limited purpose trust established under the laws of the Province of Ontario, Canada by a Declaration of Trust dated February 26, 2004. The Fund completed an initial public offering of trust Units [the “Units”] on April 7, 2004, through the Toronto Stock Exchange, to facilitate the acquisition of 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 91% due to the issuance of shares exchangeable into Units in order to facilitate the financing of two subsequent acquisitions. Consistent with the introduction of the Income Trust tax beginning in 2011, an internal reorganization was executed on December 24, 2010 by way of a series of intercompany transfers resulting in the substantial elimination of the indenture notes outstanding at December 31, 2009.

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

These 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 financial statements include the accounts of the Fund, Richards Packaging Holdings Inc. [“Holdings”] and its subsidiaries, Richards Packaging Inc. [“Richards Canada”], Richards Packaging Holdings (US) Inc., 071907 Inc., Richards Packaging, Inc. and The E.J. McKernan Company [collectively “Richards Packaging US”] and 50% of Vision Plastics Inc. [“Vision”]. Vision, which is jointly controlled, is one of our three plastic container manufacturing plants. The non-controlling interests in the investments of the Fund is 9% [2009 – 15%]. Holdings and its subsidiaries are referred to as “Richards Packaging”.

##### **Foreign currency translation**

The unit of measure for the Fund and its investments, except for Richards Packaging US, is the Canadian dollar and therefore accounts in foreign currencies have been translated into Canadian dollars. Monetary items are recorded at exchange rates in effect at the balance sheet 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, except for depreciation and amortization, which is translated at rates prevailing when the related assets were acquired. Gains and losses arising from foreign currency translations are included in profit from operations.

Richards Packaging US is treated as self sustaining foreign operations. All assets and liabilities are translated at exchange rates in effect on the balance sheet dates. Revenue and expenses, including depreciation and amortization, are translated at average exchange rates prevailing during the year. Effects of translation are included in non-controlling interests and unitholders' equity as accumulated other comprehensive loss.

## **Richards Packaging Income Fund**

### **NOTES TO FINANCIAL STATEMENTS**

*December 31, 2010*

*[Cdn\$ thousands]*

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#### **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.

#### **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. Significant risks and benefits of ownership are normally transferred in accordance with shipping terms agreed to with the customer. Richards Packaging estimates and records an allowance for product returns and discounts for each reporting period.

#### **Leases**

Rental payments and lease inducements associated with Richards Packaging's premises are expensed on a straight line basis over the term of the leases.

#### **Derivative financial instruments**

Derivative financial instruments are utilized from time to time to reduce interest rate risks on debt and not for trading or speculative purposes. Richards Packaging had not designated the interest rate swap contract settled in 2009 as a hedge for accounting purposes and accordingly, recorded the fair value on a mark-to-market valuation basis, with changes recognized in income as gains on financial instruments.

#### **Income taxes**

The Fund follows 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.

#### **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.

## Richards Packaging Income Fund

### NOTES TO FINANCIAL STATEMENTS

December 31, 2010

[Cdn\$ thousands]

#### 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 or 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.

#### Long-lived assets

Long-lived assets are comprised of plant and equipment and finite life 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 for finite life assets using undiscounted future net cash flows. Indefinite life intangibles are tested for impairment annually unless events or changes in circumstances indicate that the assets must be impaired. Should impairment exist, the loss would be measured as the difference between the carrying value and the fair value and recognized by way of an additional current period depreciation or amortization charge. Management has not identified any such impairment losses to date.

#### 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.

## Richards Packaging Income Fund

### NOTES TO FINANCIAL STATEMENTS

December 31, 2010

[Cdn\$ thousands]

#### Comparative financial statements

The additional disclosures required by IFRS that are allowable under Canadian GAAP have been implemented to facilitate the ultimate implementation next year. The statements of changes in unitholders' equity and non-controlling interests were added and extensive note disclosure enhancements are included in these financial statements.

Certain amounts in the comparative financial statements have been reclassified from financial statements previously presented to conform to the presentation of the 2010 financial statements.

#### 3. SEGMENTED INFORMATION

Richards Packaging operations consist of one reporting segment, principally the distribution of plastic and glass containers and associated closures. Performance by geographic segment is determined based on the country of sales origination. No customer represents greater than 10% of total revenue.

	Canada		United States	
	2010	2009	2010	2009
	\$	\$	\$	\$
Revenue	<b>92,930</b>	94,123	<b>86,080</b>	94,989
Non-current assets	<b>53,931</b>	60,609	<b>51,598</b>	53,095

#### 4. EXPENSES AND STAFFING

	2010	2009
	\$	\$
Employee related expenses		
Salaries and wages	<b>18,881</b>	19,270
Benefits	<b>2,554</b>	2,584
Bonuses	<b>932</b>	913
	<b>22,367</b>	22,767
Number of employees at year end	470	464
Long-term incentive plan awards	<b>100</b>	65
Operating lease expenses	<b>3,495</b>	3,583

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 of the Units vesting each year. The Trustees committed to annual funding of \$100 for three years starting 2010.

## Richards Packaging Income Fund

### NOTES TO FINANCIAL STATEMENTS

December 31, 2010

[Cdn\$ thousands]

#### 5. INCOME TAXES

Significant components of future income taxes are as follows:

	2010	credit/ (charge)	f/x <sup>b)</sup>	2009	credit/ (charge)	f/x <sup>b)</sup>	2008
	\$	\$	\$	\$	\$	\$	\$
Plant and equipment	356	(49)	7	398	31	9	358
Customer relationships <sup>a)</sup>	9,203	(2,208)	—	11,411	(3,255)	—	14,666
Computer system software	239	239	—	—	—	—	—
Patents <sup>a)</sup>	599	(101)	—	700	(135)	—	835
Gains on financial instruments	—	—	—	—	208	—	(208)
Equity placement fees	—	—	—	—	105	—	(105)
Loss for taxes not utilized	(3,665)	2	—	(3,667)	292	—	(3,959)
Working capital	(404)	24	(80)	(348)	225	(23)	(550)
Other	(89)	(163)	8	66	86	5	(25)
	<b>6,239</b>	<b>(2,256)</b>	<b>(65)</b>	<b>8,560</b>	<b>(2,443)</b>	<b>(9)</b>	<b>11,012</b>

a) Reversal of patents and customer relationships and contracts accounts 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:

	2010	2009
	\$	\$
Income before income taxes	9,666	17,352
Distributions not subject to income taxes in the Fund	(7,750)	(3,967)
<b>Income subject to income taxes</b>	<b>1,916</b>	<b>13,385</b>
Statutory tax rate	30.2%	31.5%
Income tax expense at statutory tax rate	579	4,216
<b>Future income taxes</b>	<b>2,106</b>	<b>1,709</b>
Current period adjustments		
Foreign currency translation of debt	—	(2,217)
Withholding tax	123	484
Foreign tax differential	(1,394)	(1,560)
Change in enacted rates	9	(397)
Other items	100	531
<b>Current income taxes</b>	<b>1,523</b>	<b>2,766</b>

## Richards Packaging Income Fund

### NOTES TO FINANCIAL STATEMENTS

December 31, 2010

[Cdn\$ thousands]

Undistributed profits of Richards Packaging US are considered to be reinvested indefinitely in their ongoing operations. Any distributions of such earnings would attract a 5% withholding tax.

During 2007, the Income Tax Act was amended to change the manner in which most publicly traded income trusts, and 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 are effective in 2011.

#### 6. CASH AND CASH EQUIVALENTS

	2010	2009
	\$	\$
Cash at bank	1,390	3,930
Demand deposits	1,500	—
Issued and outstanding cheques	(1,746)	(1,859)
	<b>1,144</b>	<b>2,071</b>

Demand deposits are highly liquid investments with a term to maturity of three months or less at the date of purchase.

#### 7. ACCOUNTS RECEIVABLE

	2010	2009	2010	2009
	\$	\$	\$	\$
			Impaired	
Current	—	—	10,375	10,437
Up to 60 days past due	—	—	7,559	7,903
61 – 90 days past due	—	—	550	483
Over 90 days past due	628	393	628	393
Trade receivables	628	393	19,112	19,216
Allowance for doubtful accounts <sup>a)</sup>			(479)	(589)
Supplier rebates			133	246
			<b>18,766</b>	<b>18,873</b>

a) Richards Packaging has recorded a provision of \$266 [2009 – \$254] and recognized \$373 of bad debts [2009 – \$185]. The remaining non-cash change in the accounts reflects foreign exchange differences.

## Richards Packaging Income Fund

### NOTES TO FINANCIAL STATEMENTS

December 31, 2010

[Cdn\$ thousands]

#### 8. INVENTORY

	2010	2009
	\$	\$
Goods purchased for resale <sup>a)</sup>	<b>30,108</b>	24,456
Goods in transit	<b>1,856</b>	2,823
Manufacturing raw materials	<b>736</b>	524
Manufactured finished goods	<b>2,487</b>	3,486
	<b>35,187</b>	31,289

a) Richards Packaging recognized write-downs of inventory to net realizable value of \$178 [2009 – \$2,321].

#### 9. PREPAID EXPENSES

	2010	2009
	\$	\$
Deposits for commitment to purchase goods	<b>590</b>	474
Rent and deposits	<b>843</b>	875
Insurance	<b>73</b>	86
Bank interest	<b>156</b>	134
Property taxes	<b>193</b>	23
Other deposits	<b>510</b>	418
	<b>2,365</b>	2,010

#### 10. ACCOUNTS PAYABLES

	2010	2009
	\$	\$
Trade payables	<b>13,844</b>	14,574
Staffing expenses	<b>2,146</b>	2,039
Professional fees	<b>359</b>	253
Leasehold obligation	<b>436</b>	433
Sales tax	<b>505</b>	186
Rebates	<b>437</b>	180
Other payables	<b>891</b>	939
	<b>18,618</b>	18,604

a) Management bonuses included in accrued staffing at December 31, 2010 have been fully paid subsequent to year end.

Associated with an acquisition, Richards Packaging has a U.S.\$788 non-interest bearing demand loan owing to a previous shareholder.

**Richards Packaging Income Fund**

**NOTES TO FINANCIAL STATEMENTS**

*December 31, 2010*

*[Cdn\$ thousands]*

**11. PLANT AND EQUIPMENT**

	Manufacturing Equipment \$	Moulds \$	Warehouse & office \$	Computer hardware \$	Lease- holds \$	\$
<b>December 31, 2008</b>						
Carrying value	5,032	4,458	1,192	1,190	975	12,847
Accumulated Depreciation	(3,716)	(3,085)	(537)	(771)	(203)	(8,312)
Net book value	1,316	1,373	655	419	772	4,535
Additions	666	446	(16)	109	130	1,335
Depreciation	(639)	(478)	(81)	(148)	(154)	(1,500)
Foreign exchange differences	(6)	(87)	(37)	(8)	(52)	(190)
<b>December 31, 2009</b>						
Carrying value	5,410	4,696	1,124	1,179	1,052	13,461
Accumulated Depreciation	(4,073)	(3,442)	(603)	(807)	(356)	(9,281)
Net book value	1,337	1,254	521	372	696	4,180
Additions	299	675	39	95	258	1,366
Depreciation	(537)	(503)	(100)	(129)	(166)	(1,435)
Foreign exchange differences	(83)	-	—	-	3	(80)
<b>December 31, 2010</b>						
Carrying value	5,626	5,371	1,163	1,274	1,313	14,747
Accumulated Depreciation	(4,610)	(3,945)	(703)	(936)	(522)	(10,716)
Net book value	1,016	1,426	460	338	791	4,031

## Richards Packaging Income Fund

### NOTES TO FINANCIAL STATEMENTS

December 31, 2010

[Cdn\$ thousands]

#### 12. INTANGIBLE ASSETS AND GOODWILL

	Customer relationships	Patents	Trade- marks	Computer software	Intangible assets	Goodwill
	\$	\$	\$	\$	\$	\$
<b>December 31, 2008</b>						
Carrying value	65,056	3,800	3,904	1,282	74,042	77,555
Accumulated amortization	(25,823)	(1,105)		(1,020)	(27,948)	
Net book value	39,233	2,695	3,904	262	46,094	77,555
Additions				136	136	
Amortization	(5,982)	(323)		(359)	(6,664)	
Foreign exchange differences	(1,624)	—	(534)	106	(2,052)	(5,545)
<b>December 31, 2009</b>						
Carrying value	63,347	3,800	3,370	1,524	72,041	72,010
Accumulated amortization	(31,720)	(1,428)		(1,379)	(34,527)	
Net book value	31,627	2,372	3,370	145	37,514	72,010
Additions		14		641	655	
Amortization	(5,949)	(323)		(213)	(6,485)	
Foreign exchange differences	(474)	(98)	(58)	54	(576)	(1,620)
<b>December 31, 2010</b>						
Carrying value	62,848	3,716	3,312	2,219	72,095	70,390
Accumulated amortization	(37,644)	(1,751)		(1,592)	(40,987)	
Net book value	25,204	1,965	3,312	627	31,108	70,390

Intangible assets amortization is not deductible for tax purposes. The foreign currency translation differences are associated with the non current assets related to Richards Packaging US. Goodwill is not deductible for tax purposes.

#### 13. REVOLVING AND TERM DEBT

Richards Packaging has available both revolving and term debt credit facilities, which were refinanced on May 31, 2010 to extend the term by 3 years and lower the interest rate by 0.5% on the term facility and 1.0% on the revolving facility. The number of lenders in the bank syndicate was reduced from three to two, refinancing approximately 36% owing to the exiting bank, and expensed \$214 of unamortized debt issue costs. An additional net \$281 was drawn on the term facility, \$518 of associated fees expensed and availability under the revolving facility reduced from \$7,000 to \$5,000. The revolving credit facility matures on May 31, 2013 and bears interest at the prime rate plus a premium of 1.0% to 1.75%. The effective interest rate at December 31, 2010 was 3.6% [2009 – 5.4%]. There was no amount drawn on the facility at December 31, 2010 or 2009.

## Richards Packaging Income Fund

### NOTES TO FINANCIAL STATEMENTS

December 31, 2010

[Cdn\$ thousands]

The term loan credit facility of \$48,000 [2009 – \$47,719] matures on May 31, 2013 and bears interest at the bankers' acceptance borrowing plus a premium of 2.0% to 2.75%. The effective interest rate at December 31, 2010 was 3.3% [2009 – 5.1%]. On July 31, 2009, Richards Packaging converted the U.S. denominated term loan into Canadian denominated debt at U.S./Cdn. 92.3¢. No repayments of term debt were made during the year ended December 31, 2010 [2009 – \$7,731 repaid]. This facility was subject to an interest rate swap on U.S.\$30,000 which expired on June 5, 2009. The term loan was presented in 2009 net of unamortized debt issue costs of \$317.

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

	2010	2009
	\$	\$
Interest expense	1,837	3,028
Credit card commissions	578	630
Credit facility charges	196	316
Debt fee accretion and write off on debt extinguishment	835	220
	<b>3,446</b>	<b>4,194</b>

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

#### 14. UNITS AND EXCHANGEABLE SHARES

<i>Number outstanding</i>	<b>Units basic</b>	<b>Weighted average</b>	<b>Exchangeable Shares</b>	<b>Units diluted</b>	<b>Weighted average</b>
<b>December 31, 2008</b>	10,114,722	10,158,325	1,793,533	11,908,255	11,951,858
Share conversion	18,500		(18,500)		
Units purchased	(43,006)			(43,006)	
<b>December 31, 2009</b>	10,090,216	10,111,490	1,775,033	11,865,249	11,903,452
Share conversion	715,990		(715,990)		
Units purchased	(62,736)			(62,736)	
<b>December 31, 2010</b>	<b>10,743,470</b>	<b>10,054,973</b>	<b>1,059,043</b>	<b>11,802,513</b>	<b>11,808,428</b>

#### 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

## **Richards Packaging Income Fund**

### **NOTES TO FINANCIAL STATEMENTS**

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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 initiated a normal course issuer bid on November 16, 2009 to purchase up to 202,000 Units prior to November 15, 2010. During the year, 62,736 Units [2009 – 43,006] were purchased for an average price of \$7.25/Unit [2009 – \$6.98].

#### **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 are redeemable 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. Exchangeable shares issued by Richards Packaging Holdings (US) Inc. 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 with U.S.\$6,000 converted on December 21, 2010, 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.

#### **Distributions and dividends**

Distributions are made monthly to unitholders of record on the last business day of each month and paid on the 14<sup>th</sup> day of the following month. Distributions during the months from March through to September of 2009 were temporarily suspended and the surplus cash was used to repay debt. Monthly distributions were declared for January through December 2010 beginning at \$659 and ended at \$704, or 6.55¢ per Unit, reflecting unit buyback activity by the Fund and the conversion of exchangeable shares [2009 – began at \$946, 9.35¢ per Unit and ended at \$661, 6.55¢ per Unit]. The board of Trustees approved a reduction in the capital account of \$9,938 to reflect the cumulative return of capital that has been distributed to the unitholders since the inception of the Fund.

Dividends paid to 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 14<sup>th</sup> day of the following month. Dividends during the months from March through to September of 2009 were temporarily suspended consistent with the suspension of distributions.

#### **15. CAPITAL STRUCTURE**

The Fund's 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 2.75 starting September 30,

## Richards Packaging Income Fund

### NOTES TO FINANCIAL STATEMENTS

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2009. As of December 31, 2010 the leverage ratio was 2.16 [2009 – 2.13]. In addition, the Fund is required to maintain a fixed charge coverage ratio of greater than 2.50 times 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. During the months from March through to September of 2009, the Trustees temporarily suspended distributions with the resulting surplus cash flow used to repay debt.

#### 16. RELATED PARTY TRANSACTIONS AND JOINT VENTURE

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

	2010	2009
	\$	\$
Leases of facilities from entities related to certain officers	460	470
Product purchases from Vision	6,951	7,032

Richards Canada owns a 50% interest in a joint venture, Vision. Since all of the sales of Vision are to Richards Packaging, financial information relating to the joint venture presented below reflects 100% of transactions and balances:

	2010	2009		2010	2009
	\$	\$		\$	\$
<b>Balance Sheet</b>					
<b>Assets</b>			<b>Liabilities</b>		
Current assets	1,356	1,643	Current liabilities	409	751
Plant and equipment	421	540			
Future income taxes	—	39			
<b>Total assets</b>	<b>1,777</b>	<b>2,222</b>	<b>Net assets</b>	<b>409</b>	<b>751</b>
<b>Statement of income</b>					
Revenue				6,951	7,032
Expenses				7,053	7,198
<b>Net loss</b>				<b>(102)</b>	<b>(166)</b>

## Richards Packaging Income Fund

### NOTES TO FINANCIAL STATEMENTS

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#### 17. FINANCIAL INSTRUMENTS

##### Fair value

Cash and cash equivalents, accounts receivable, accounts payable, 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 are classified as held-for-trading and accounts receivable are classified as receivables. All financial liabilities other than bank indebtedness are classified as other financial liabilities.

The fair value of long-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.

##### Credit risk

Richards Packaging's financial assets exposed to credit risk consist primarily of trade receivables arising from the sale of goods. 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, 2010 and 2009, no customer represented 10% 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 of December 31, 2010 is sufficient to cover current accounts and impaired accounts [note 7].

##### 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 [notes 10, 18]. This is achieved through a combination of cash balances [note 6], availability of credit facilities [note 13], 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 and term loan credit facilities. Richards Packaging had entered into an interest rate swap contract with approved creditworthy counterparties to June 5, 2009 on a notional principal amount equal to the then U.S.\$30,000 term debt outstanding. The mark-to-market valuation of the swap contract up to its expiry on June 5, 2009 gave rise to a gain of \$659 included in Gains on financial instruments. All debt is now subject to variable interest rates and a 1.0% movement in interest rates would have impacted net income by \$329 [2009 – \$329].

## Richards Packaging Income Fund

### NOTES TO FINANCIAL STATEMENTS

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#### Foreign currency risk

Richards Packaging is exposed to U.S./Cdn. currency fluctuations on cross-border transactions and on the translation of U.S. dollar cash flows of Richards Packaging US. A foreign currency loss of \$16 has been recorded for the year ended December 31, 2010 [2009 – \$452] relating to cross border transactions. A foreign currency gain of \$7,003 from the translation of the U.S. dollar denominated term debt was recorded and included in Gains on financial instruments as a result of the change in the U.S./Cdn. rate from 82¢ to 92¢ for the seven months ended July 31, 2009 at which time the term debt was converted into a Canadian dollar obligation.

#### 18. COMMITMENTS AND CONTINGENCIES

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

	<b>Related parties</b>	<b>Other</b>	<b>Total</b>
	\$	\$	\$
2011	<b>474</b>	<b>3,328</b>	<b>3,802</b>
2012	<b>488</b>	<b>3,130</b>	<b>3,618</b>
2013	<b>502</b>	<b>3,009</b>	<b>3,511</b>
2014	<b>517</b>	<b>2,168</b>	<b>2,685</b>
2015	<b>533</b>	<b>1,462</b>	<b>1,995</b>
Thereafter	<b>2,203</b>	<b>2,964</b>	<b>5,167</b>

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.

Legal costs to prosecute a patent, trademark and copyright infringement case are expensed as incurred, with any potential gain on settlement to be recognized on realization.

## Richards Packaging Income Fund

### NOTES TO FINANCIAL STATEMENTS

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#### 19. ADDITIONAL CASH FLOW INFORMATION

The net change in working capital consists of the following:

	2010	2009
	\$	\$
Accounts receivable	(299)	151
Inventory	(5,011)	3,947
Prepaid expenses	(416)	(499)
Accounts payable	423	(2,464)
Income taxes recoverable	(722)	393
	<b>(6,025)</b>	<b>1,528</b>

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

	2010	2009
	\$	\$
Interest paid	2,633	4,341
Income taxes paid	2,213	2,238