

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, 2009 and 2008 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, 2009 and 2008 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, 2010

Richards Packaging Income Fund

CONSOLIDATED BALANCE SHEETS

[expressed in thousands of dollars]

As at December 31

[2008 restated – note 3]

	2009	2008
	\$	\$
ASSETS [note 8]		
Current		
Cash and cash equivalents	2,071	202
Accounts receivable [note 14]	18,873	20,458
Inventory [note 4]	31,289	38,254
Prepaid expenses	2,010	1,687
Income taxes recoverable	10	416
Total current assets	54,253	61,017
Capital assets [note 5]	4,180	4,535
Intangible assets [note 6]	37,514	46,094
Future income tax assets [note 12]	21	53
Goodwill [note 7]	72,010	77,555
	167,978	189,254
LIABILITIES AND UNITHOLDERS' EQUITY		
Current		
Bank indebtedness	—	258
Accounts payable and accrued liabilities	18,604	23,290
Distributions and dividends payable [notes 9 and 10]	780	1,135
Due to previous shareholder of acquired company	825	966
Total current liabilities	20,209	25,649
Long-term debt [notes 8 and 11]	47,402	61,916
Future income tax liabilities [note 12]	8,581	11,065
Total liabilities	76,192	98,630
Non-controlling interests [note 9]	15,081	15,135
Unitholders' equity		
Units [note 10]	94,349	94,508
Deficit	(13,469)	(23,433)
Accumulated other comprehensive income (loss)	(4,175)	4,414
	(17,644)	(19,019)
Total unitholders' equity	76,705	75,489
	167,978	189,254
Commitments and contingencies [note 15]		

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)

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

For the years ended December 31

[2008 restated – note 3]

	2009	2008
	\$	\$
Revenue	189,112	187,316
Cost of products sold	155,804	155,004
	33,308	32,312
General and administrative expenses	10,663	10,324
Foreign currency loss (gain) [note 14]	452	(108)
Income before under noted items, income taxes and non-controlling interests	22,193	22,096
Amortization and debt accretion	8,384	8,578
Patent defense costs	145	307
Interest expense [note 8]	3,974	4,498
Losses (gains) on financial instruments	(7,662)	12,596
Income (loss) before income taxes and non-controlling interests	17,352	(3,883)
Provision for (recovery of) income taxes [note 12]		
Current	2,766	1,971
Future	(1,709)	(3,932)
	1,057	(1,961)
Non-controlling interests [note 9]	2,455	(293)
Net income (loss) for the year	13,840	(1,629)
Basic and diluted income (loss) per Unit [note 10]	\$1.37	(\$0.16)
Other comprehensive income (loss)		
Unrealized foreign currency translation of Richards Packaging US	(8,589)	11,615
Comprehensive income for the year	5,251	9,986
STATEMENT OF DEFICIT		
Deficit, beginning of year	(23,433)	(10,407)
Net income (loss) for the year	13,840	(1,629)
Distributions declared to unitholders [note 10]	(3,876)	(11,397)
Deficit, end of year	(13,469)	(23,433)
ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)		
Accumulated other comprehensive income (loss), beginning of year	4,414	(7,201)
Other comprehensive income (loss)	(8,589)	11,615
Accumulated other comprehensive income (loss), end of year	(4,175)	4,414

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 restated – note 3]

	2009	2008
	\$	\$
OPERATING ACTIVITIES		
Net income (loss) for the year	13,840	(1,629)
Add (deduct) items not involving cash		
Amortization		
Capital assets	1,500	1,453
Intangible assets	6,664	6,715
Debt accretion	220	410
Future income taxes	(1,709)	(3,932)
Non-controlling interests	2,455	(293)
Losses (gains) on financial instruments [note 14]		
Interest rate swap contract	(659)	354
Foreign currency translation of debt	(7,003)	12,242
	15,308	15,320
Net change in non-cash operating elements of working capital [note 16]	1,528	1,224
Cash provided by operating activities	16,836	16,544
INVESTING ACTIVITIES		
Additions to capital assets	(1,335)	(1,972)
Expenditures on computer systems software	(136)	—
Cash used in investing activities	(1,471)	(1,972)
FINANCING ACTIVITIES		
Decrease in bank indebtedness	(221)	(1,001)
Proceeds from debt, net	—	4,020
Repayment of short and long-term debt	(7,731)	(2,975)
Purchase of trust units for cancellation [note 10]	(309)	(1,018)
Dividends paid to exchangeable shareholders	(819)	(2,073)
Distributions paid to unitholders	(4,161)	(11,409)
Cash used in financing activities	(13,241)	(14,456)
Foreign currency loss	(255)	(17)
Net increase in cash and cash equivalents	1,869	99
Cash and cash equivalents, beginning of year	202	103
Cash and cash equivalents, end of year	2,071	202

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, 2009

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 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. Consistent with the change in distribution policy during 2009, an internal reorganization was executed by way of a series of intercompany transfers resulting in a reduction of \$11,567 in the indenture note outstanding at December 31, 2009.

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”] 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 interest in the investments of the Fund is 15% [2008 – 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. 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.

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 that 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]

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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	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. Computer systems software is amortized over 5 years, customer relationships and contracts are amortized over 10 or 15 years and patents are amortized 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 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

Richards Packaging Income Fund

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

December 31, 2009

the carrying value and the fair value and recognized by way of an additional current period amortization charge. Management has not identified any such impairment losses to date.

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.

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 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 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 amortization, are translated at average exchange rates prevailing during the year. Effects of translation 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 had 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 losses (gains) 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, 2009

Comparative consolidated financial statements

Certain amounts in the comparative consolidated financial statements have been reclassified from consolidated financial statements previously presented to conform to the presentation of the 2009 consolidated financial statements.

3. CHANGE IN ACCOUNTING POLICIES

Effective January 1, 2009 the Fund adopted the following new recommendations of The Canadian Institute of Chartered Accountants Handbook:

Goodwill and Intangible Assets *[Section 3064]*

This standard establishes the approach for recognition, measurement, and disclosure of goodwill and intangible assets. Legal defense costs incurred to defend a patent infringement case which were previously capitalized and amortized over the patent's remaining useful life are now expensed in the period they are incurred and computer systems software that is not integral to any computer hardware and formerly included in capital assets is now classified as intangible assets. The impact was to decrease intangible assets by \$475, capital assets by \$262, future tax liabilities by \$209, non-controlling interests by \$42 and increase the deficit by \$486 as at December 31, 2008. For the 2008 year, the impact was to increase net loss by \$147 and basic and diluted loss per Unit by 0.1¢ as a result of patent defense costs of \$307 expensed, intangible asset amortization decreased by \$72, recovery of future income taxes increased by \$63 and non-controlling interests increased by \$25. In addition, amortization of intangible assets increased and capital assets decreased by \$276 as a result of computer systems software being reclassified to intangible assets. The deficit as at January 1, 2007 was increased by \$339 which is the net amount of these adjustments to prior periods.

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

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 *[note 4]*. 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.

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 11]*.

Richards Packaging Income Fund

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

December 31, 2009

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

These standards replace *Section 3861, Financial Instruments - Disclosure and Presentation*, revising and enhancing disclosure requirements placing increased emphasis on the nature and extent of risks arising from financial instruments and how Richards Packaging manages those risks [note 14].

4. INVENTORY

Finished goods represent 98% [2008 – 98%] of total inventory as at December 31, 2009. Richards Packaging recognized write-downs as an expense of \$2,321 for the year ended December 31, 2009 [2008 – \$327].

5. CAPITAL ASSETS

	Cost	Accumulated amortization	Net book value	
	\$	\$	2009	2008
	\$	\$	\$	\$
Manufacturing equipment	5,410	4,073	1,337	1,316
Moulds	4,696	3,442	1,254	1,373
Computer equipment	1,050	711	339	372
Computer software	129	96	33	47
Warehouse and office equipment	1,124	603	521	655
Leasehold improvements	1,052	356	696	772
	13,461	9,281	4,180	4,535

6. INTANGIBLE ASSETS

	Cost	Accumulated amortization	Net book value	
	\$	\$	2009	2008
	\$	\$	\$	\$
Customer relationships and contracts	63,347	31,720	31,627	39,233
Computer systems software	1,525	1,380	145	262
Patents	3,800	1,428	2,372	2,695
Trademarks	3,370	—	3,370	3,904
	72,042	34,528	37,514	46,094

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, 2009

7. GOODWILL

	2009	2008
	\$	\$
Goodwill, beginning of year	77,555	70,187
Foreign currency translation gain (loss)	(5,545)	7,368
Goodwill, end of year	72,010	77,555

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

8. SHORT AND LONG-TERM DEBT

Richards Packaging has available revolving and term debt credit facilities. The revolving credit facility of \$7,000 [2008 – \$7,000] matures on June 2, 2010 and bears interest at the prime rate plus a premium of 2.5% to 3.25%. The effective interest rate at December 31, 2009 was 5.4% [2008 – 6.2%]. There was no amount drawn on the facility at December 31, 2009 or 2008.

The term loan credit facility of \$47,719 [2008 – U.S.\$51,000] matures on June 3, 2011 and bears interest at the bankers' acceptance borrowing plus a premium of 3.0% to 3.75%. The effective interest rate at December 31, 2009 was 5.1% [2008 – 6.4%]. On July 31, 2009, Richards Packaging converted the U.S. denominated term loan into Canadian denominated debt at U.S./Cdn. 92.3¢. During the year ended December 31, 2009, \$7,731 of the term debt was repaid [2008 – \$1,237]. This facility was subject to an interest rate swap on U.S.\$30,000 which expired on June 5, 2009. The term loan is presented net of unamortized debt issue costs of \$317 [2008 – \$539]. In 2008, Richards Packaging converted the then outstanding balance of the revolving and acquisition credit facilities into a new term debt facility bringing the total term debt at the time to U.S.\$52,000. Richards Packaging had available an acquisition credit facility which was cancelled December 10, 2008 and bore interest at LIBOR plus a premium of 2.0% to 2.75%. The effective interest rate when cancelled was 5.3%.

Interest expense for the year ended December 31, 2009 is comprised as follows: term loan and revolving credit interest of \$3,028 [2008 – \$3,717], credit card commission charges of \$630 [2008 – \$576] and credit facility charges of \$316 [2008 – \$205].

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

Richards Packaging Income Fund

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

December 31, 2009

9. NON-CONTROLLING INTERESTS

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

	Number of shares	\$
Balance, December 31, 2007	1,793,533	15,392
Other comprehensive income allocation		2,133
Share of net loss		(293)
Dividends		(2,097)
Balance, December 31, 2008	1,793,533	15,135
Conversion to Units	(18,500)	(150)
Other comprehensive income allocation		(1,610)
Share of net income		2,455
Dividends		(749)
Balance, December 31, 2009	1,775,033	15,081

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 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 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 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 14th day of the following month. Dividends during the months from March through to September of the year ended December 31, 2009 were temporarily suspended consistent with the suspension of distributions [note 10].

10. UNITS

The Fund initiated a normal course issuer bid on November 16, 2009 to purchase up to 202,000 Units [2008 – 307,700] prior to November 15, 2010. During the year, 43,006 Units [2008 – 116,305] were purchased for an average price of \$6.98/Unit [2008 – \$8.75/Unit].

Richards Packaging Income Fund

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

December 31, 2009

	Number of Units	Carrying value \$	Discount \$	\$
Balance, December 31, 2007	10,231,027	95,524	2	95,526
Purchased for cancellation, net	(116,305)	(1,086)	68	(1,018)
Balance, December 31, 2008	10,114,722	94,438	70	94,508
Issued to replace exchangeable shares	18,500	150	—	150
Purchased for cancellation, net	(43,006)	(409)	100	(309)
Balance, December 31, 2009	10,090,216	94,179	170	94,349
			2009	2008
Weighted average number of Units outstanding				
Basic			10,111,490	10,158,325
Diluted			11,903,452	11,951,858

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 14th 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 and February of \$946, or 9.35¢ per Unit, and for October through December began at \$663 and ended at \$661, or 6.55¢ per Unit, reflecting unit buyback activity by the Fund [2008 – began at \$957 and ended at \$946, or 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 of the Units vesting each year. The contributions to the LTIP ceased as of April 4, 2007 and the

Richards Packaging Income Fund

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

December 31, 2009

yearly vesting period was completed in 2009. The Trustees committed to annual funding of \$100 for three years starting in 2010.

11. 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: optimizing the cost of capital at acceptable risk levels while providing an appropriate return to its unitholders and shareholders; balancing the interests of equity, non-controlling interests 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 3.25 times until June 30, 2009 and was reduced to 2.75 starting September 30, 2009. As of December 31, 2009 the leverage ratio was 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.

12. INCOME TAXES

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

	2009	2008
	\$	\$
Future income tax assets – long-term		
Capital assets	(3)	(13)
Equity placement fees	—	31
Loss for income taxes not utilized	24	35
	21	53

Richards Packaging Income Fund

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

December 31, 2009

	2009	2008
	\$	\$
Future income tax liabilities – long-term		
Capital assets	395	345
Unrealized gains on financial instruments	—	(208)
Customer relationships and contracts ¹	11,411	14,666
Patents ¹	700	835
Equity placement fees	—	(74)
Loss for income taxes not utilized	(3,643)	(3,924)
Working capital	(348)	(550)
Other	66	(25)
	8,581	11,065

¹ Reversal of patents and customer relationships and contracts accounts will not give rise to income taxes.

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

	2009	2008
	\$	\$
Income (loss) before income taxes and non-controlling interests	17,352	(3,883)
Distributions to unitholders, not subject to income taxes in the Fund	(3,967)	(9,534)
Income (loss) subject to income taxes	13,385	(13,417)
Statutory tax rate	31.5%	32.5%
Income taxes expense (recovery) at statutory tax rate	4,216	(4,361)
Future income tax recovery	1,709	3,932
Current period adjustments		
Foreign currency translation of debt	(2,217)	2,991
Withholding tax	484	327
Foreign tax differential	(1,560)	(1,435)
Change in enacted rates	(397)	66
Other items	531	451
Current income taxes	2,766	1,971

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 Income Fund

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

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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 these financings are commercially reasonable however, there can be no assurance the Internal Revenue Service will not challenge the tax filing position taken by Richards Packaging US, in which case some or all of the otherwise deductible interest would be treated as non-deductible distributions.

13. RELATED PARTY TRANSACTIONS AND JOINT VENTURE

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

	2009	2008
	\$	\$
Leases of facilities from certain officers and their related entities	470	803
Product purchases from Vision	7,032	8,098

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

	2009	2008		2009	2008
	\$	\$		\$	\$
Balance sheet					
Assets			Liabilities		
Current assets	1,643	1,355	Current liabilities	751	528
Capital assets	540	704			
Future income taxes	39	42			
Total assets	2,222	2,101	Total liabilities	751	528
Statement of income					
Revenue				7,032	8,098
Expenses				7,198	8,356
Net loss				(166)	(258)
Additional information					
Cash provided by operating activities				364	279
Cash used in investing activities				120	25
Cash used in financing activities				—	55

Since all of the sales of Vision are to Richards Packaging, 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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14. 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 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 accounts receivable 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, 2009 and 2008, no customer represented 10% or more of accounts receivable or sales. The accounts receivable amount recorded in the consolidated 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:	2009	2008
	\$	\$
Not impaired		
Up to 60 days past due	7,903	7,131
61 – 90 days past due	483	838
Impaired		
Over 90 days past due	393	624

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, 2009 is sufficient to cover current accounts and impaired accounts.

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 15]*. This is achieved through a

Richards Packaging Income Fund

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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combination of cash balances, availability of credit facilities *[note 8]*, 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 [2008 – \$354 loss]. All debt is now subject to variable interest rates [2008 – U.S.\$21,000] and a 1.0% movement in interest rates would have impacted net income by \$329 [2008 – \$150].

Foreign currency risk

Richards Packaging is exposed to U.S./Cdn. currency fluctuations on cross-border transactions, on the translation of U.S. dollar denominated debt and the earnings of Richards Packaging US. A foreign currency loss of \$452 has been recorded for the year ended December 31, 2009 [2008 – \$108 gain] relating to cross border transactions. A foreign currency gain of \$7,003 [2008 – \$12,242 loss] from the translation of the U.S. dollar denominated term debt has been recorded 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.

15. 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
	\$	\$	\$
2010	484	3,099	3,583
2011	498	3,051	3,549
2012	513	2,840	3,353
2013	529	2,722	3,251
2014	544	1,861	2,405
Thereafter	2,878	3,635	6,513

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

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

December 31, 2009

16. 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:

	2009	2008
	\$	\$
Accounts receivable	151	2,309
Inventory	3,947	(1,797)
Prepaid expenses	(499)	728
Accounts payable and accrued liabilities	(2,464)	616
Income taxes recoverable/payable	393	(632)
	1,528	1,224

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

	2009	2008
	\$	\$
Interest paid	4,341	4,484
Income taxes paid	2,238	2,726

17. SEGMENTED INFORMATION

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

	Canada		United States	
	2009	2008	2009	2008
	\$	\$	\$	\$
Revenue	94,123	104,680	94,989	82,636
Capital assets and goodwill	41,300	41,426	34,890	40,664

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