# *Q1* QUARTERLY REPORT

# Richards Packaging Income Fund

Quarter ended March 31, 2010

## Report Contents



Richards

**Richards Packaging Income Fund**

# CEO'S REPORT TO UNITHOLDERS

*March 31, 2010*

Richards Packaging has been providing packaging solutions to small-and medium-sized North American businesses since 1912. Over this period Richards Packaging has developed into the leading packaging distributor in Canada, and the third largest in North America, with one of the most diverse product and service offerings available to product marketers.

The first quarter performance continued the rebound that began during the fourth quarter of 2009 with organic revenue growth at 5.4%, as our customers replenished their inventories. Total revenue was down 2.7% driven by the appreciation of the Cdn. dollar by U.S./Cdn. 16¢. EBITDA[1] was up $0.6 million, or 11.7%, due to higher production, and therefore overhead absorption, at our plants. Gross profit and EBITDA as a percent of sales continued to run at strong levels of 18.2% and 12.5% respectively. Net income was up $2.1 million, or 21¢ per Unit, reflecting higher EBITDA and lower interest costs at $0.7 million.

Richards Packaging deployed the $2.1 million of cash on hand at year end to invest in working capital, mainly in receivables (flat on a days sales basis) $1.5 million and in inventory $2.0 million. Over the next six months we expect this investment to be realized as higher sales[4]. Although payables increased in line with the higher inventory levels, this was offset by the 2009 bonuses outlined in our 2009 annual report.

The Fund paid monthly distributions of 6.55¢ per Unit during the first quarter, which represented an annualized yield of 10.8% on the March 31st closing price of $7.25 per Unit. The payout ratio[3] for the first quarter was 60%, an improvement from 74% during the fourth quarter of 2009. During the first quarter, an additional 42,136 Units were purchased for cancellation at an average price of $7.14 per Unit.

We appreciate the support of our customers, suppliers, employees and investors and will continue to execute on our commitments with the highest degree of quality, care and integrity.

*"Gerry Glynn"* May 3, 2010
Chief Executive Officer
Richards Packaging Inc.

**Richards Packaging Income Fund**

# MANAGEMENT'S DISCUSSION AND ANALYSIS

*(expressed in thousands, except where otherwise indicated)*

*May 3, 2010*

*This management's discussion and analysis ("MD&A") of Richards Packaging Income Fund for the first quarter should be read in conjunction with the attached interim unaudited consolidated financial statements dated March 31, 2010, the 2009 Annual Report and the 2009 Annual Information Form dated March 5, 2010 respectively. Results are reported in Canadian dollars and have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") on a consistent basis with the 2009 annual financial statements.*

## Fund Profile and Description of the Business

Richards Packaging Income Fund (the "Fund") is a limited purpose, open-ended trust created on February 26, 2004 to invest in packaging distribution businesses throughout North America. The Fund commenced operations on April 7, 2004 with an initial public offering of 8,569,913 trust units of the Fund ("Units") at a price of $10 per Unit and an indirect purchased 96% of the securities of Richards Packaging Inc. ("Richards Packaging"). This ownership is currently at 85% due to the issuance of shares exchangeable into Units in order to facilitate the financing of two acquisitions and purchases under our normal course issuer bid. Units are listed on the Toronto Stock Exchange under the symbol RPI.UN.

Richards Packaging serves a wide customer base that is comprised of approximately 10,000 regional food, beverage, cosmetic, specialty chemical, pharmaceutical and other companies. The primary source of revenue is from the distribution of over 5,000 different types of packaging containers and related components sourced from over 600 suppliers and its three dedicated manufacturing facilities. Sales from these manufacturing facilities represent approximately 16% of the total revenues of Richards Packaging. In addition to providing its customers with a wide range of packaging solutions, Richards Packaging provides design and development services and comprehensive logistics management through 16 sales offices and one agency location.

## Highlights and Selected Financial Information

Highlights of the overall performance for the first quarter include:

- Revenue contraction of $1.3 million, or 2.7%, as 5.4% organic growth was more than offset by foreign currency translation of Richards Packaging US (U.S./Cdn. 16¢ appreciation),
- EBITDA[1] up $0.6 million, or 11.7%, representing 12.5% of sales, due to organic growth and under-absorption of plant overheads in 2009,
- Inventory increased by $2.0 million and receivables by $1.5 million,
- Obtained commitments to extend the term and revolving credit maturities to 2013 at a reduced cost of 0.5% in bank margining subsequent to quarter end,
- Increased distributable cash flow[2] by $0.7 million, or 5.9¢ per Unit, resulting in a 60% payout ratio[3], improved from 74% in the fourth quarter,
- Purchased 42,136 Units for cancellation (@$7.14/Unit) under our buyback program and
- Paid monthly distributions of 6.55¢ per Unit representing a 10.8% annualized return on the March 31st closing price of $7.25 per Unit.

*(expressed in thousands, except where otherwise indicated)*

This MD&A covers the three months ended March 31, 2010 (generally referred to in this MD&A as the "first quarter"). The following table sets out selected consolidated financial information:

| | Qtr. 1 | |
|---|---|---|
| | **2010** | **2009** |
| | $ | $ |
| **Income Statement Data:** | | |
| Revenue | **45,158** | **46,417** |
| EBITDA[1] | **5,624** | **5,033** |
| *Diluted per Unit* | ***47.6¢*** | ***42.3¢*** |
| Net income | **2,455** | **339** |
| *Diluted per Unit* | ***24.4¢*** | ***3.4¢*** |
| **Balance Sheet Data:** | | |
| Total assets | **166,056** | **188,446** |
| Bank debt | **47,459** | **65,754** |
| **Cash Flow Statement Data:** | | |
| Distributions and dividends | **2,338** | **2,277** |
| *Diluted per Unit* | ***19.8¢*** | ***19.1¢*** |
| *Payout ratio[3]* | ***60%*** | ***71%*** |

The distribution policy is set by the Trustees after giving careful consideration to the projected cash flows, the long-term sustainability of the distribution level and the balance of risks and future prospects of the investments of the Fund. This policy is not set based on net income due to various non-cash accounting charges that depress net income such as amortization and future income taxes. Factors considered when setting this level included the Income Trust tax beginning in 2011, the current low interest rates and the cash needs of operations. The payout ratio of 71% for the first quarter of 2009 reflects a temporary suspension of distributions beginning March 2009. The distribution was reinstated in October 2009 at the lower rate of 6.55¢ per Unit (2009 – 9.35¢). Surplus distributable cash was utilized to avoid typical seasonal borrowing and for Units purchased under our normal course issuer bid.

## Review of Operations

Richards Packaging's operations were approximately half in Canada and half in the United States ("Richards Packaging US") similar to performance in 2009. Approximately one-third of Richards Packaging's sales are concentrated in Toronto, Montreal and Vancouver and one-third in Los Angeles, Seattle, Reno and Portland.

Revenue decreased by $1.3 million, or 2.7%, for the first quarter from the same period in 2009 due to the translation impact of Richards US, with the Canadian dollar strengthening by 15.9¢ to U.S./Cdn.$0.962 ($3.5 million), offset by organic growth of 5.4% ($2.2 million).

*(expressed in thousands, except where otherwise indicated)*

| | Qtr. 1 2010 $ | Qtr. 1 2009 $ |
|---|---|---|
| **Revenue** | **45,158** | **46,417** |
| Cost of products sold | **36,940** | **38,698** |
| Gross profit | **8,218** | **7,719** |
| | *18.2%* | *16.6%* |
| Expenses | **2,538** | **2,615** |
| Foreign currency loss | **56** | **71** |
| **EBITDA**[1] | **5,624** | **5,033** |
| | *12.5%* | *10.8%* |
| Amortization and debt accretion | **2,044** | **2,062** |
| Patent defense costs | **63** | **72** |
| Interest expense | **621** | **1,306** |
| Losses on financial instruments | **—** | **1,528** |
| Income tax expense (recovery) | **8** | **(334)** |
| Non-controlling interests | **433** | **60** |
| **Net Income** | **2,455** | **339** |

Cost of products sold decreased by $1.8 million, or 4.5%, for the first quarter, with the business performing at an 18.2% gross profit margin, up 1.6% from the same period in 2009 but consistent with the fourth quarter of 2009. These increases are primarily due to the continued shift into smaller customers and higher margin products. The volatility in the price of resins continues to not have a material impact on margins as a result of management's practice of immediately passing through increases and decreases to customers.

General and administrative expenses for the first quarter decreased $0.1 million over the same period in 2009 primarily due to the translation of U.S. dollar denominated expenses of Richards Packaging US.

The foreign currency loss from operations resulted from exchange rate changes applied to our U.S. dollar denominated working capital position in the Canadian operations and a decrease in the net investment in Richards Packaging US.

EBITDA[1] for the first quarter increased by $0.6 million, or 11.7%, from the same period in 2009. As a percent of sales, EBITDA was at 12.5% for the first quarter, up 1.7% from the same period in 2009. Changes were a result of the factors referred to above.

Amortization and long-term debt accretion of $2.0 million for the first quarter was mainly comprised of $1.6 million for intangibles assets, which represents a charge for customer relationships and patents. The remaining amortization was for capital assets ($0.3 million), which annualized, is approximately twice Richards Packaging's normalized annual maintenance capital expenditure requirement. Long-term debt accretion was $0.1 million during the first quarter.

Patent defense costs relate to ongoing expenditures incurred to establish that a competitor has infringed our Dispill patent and trademark with a product launched in July 2006.

*(expressed in thousands, except where otherwise indicated)*

Interest expense was $0.7 million lower for the first quarter compared to the same period in 2009 due to the absence of the fixed interest rate swap ($0.4 million) and the impact of principal repayments and floating interest rate reductions ($0.3 million).

Losses on financial instruments in 2009 of $1.5 million were comprised of foreign currency translation of US denominated debt ($1.8 million loss) and mark-to-market adjustments on the fixed interest rate swap then outstanding ($0.3 million gain). The term loan was converted in July 2009 which removed the volatility associated with foreign currency translation gains and losses on the debt. Since Richards Packaging had borrowed mainly in U.S. dollars to match the U.S. dollar interest obligations with the net cash it receives from Richards Packaging US prior to conversion, this natural hedge no longer exists.

Current income taxes of $0.8 million for the first quarter mainly reflect tax leakage for Richards Packaging US. Net future tax assets available to shield income taxes are $3.8 million.

Net income for the first quarter was $2.5 million, which represented 24.4¢ per Unit on a diluted basis. A time-weighted average of 10,051,468 Units and 1,775,033 exchangeable shares, exchangeable into Units on a one-for-one basis, were outstanding throughout the first quarter.

## Distributable Cash Flow[2]

| | Qtr. 1 | |
|---|---|---|
| | **2010** | **2009** |
| | $ | $ |
| Cash provided by operating activities | **823** | **1,982** |
| Working capital changes | **3,338** | **1,243** |
| Non-cash charges | **1,463** | **1,808** |
| | **5,624** | **5,033** |
| Interest | **621** | **1,306** |
| Cash income tax | **779** | **430** |
| Maintenance capital | **327** | **68** |
| **Distributable cash flow[2]** | **3,897** | **3,229** |
| *Diluted per Unit* | ***33.0¢*** | ***27.1¢*** |
| **Distributions and dividends** | **2,338** | **2,277** |
| *Diluted per Unit* | ***19.8¢*** | ***19.1¢*** |
| Payout ratio[3] | ***60%*** | ***71%*** |
| **Purchase of Units** | **305** | — |
| **Units outstanding on a diluted basis** | **11,827** | **11,908** |

The distributable cash flow[2] definition excludes changes in working capital and capital expenditures for the expansion of the business, as they are necessary to drive organic growth and are expected to be financed by a $5.0 million revolving facility available to Richards Packaging (nil drawn; 2009 – $2.0 million).

Distributable cash flow[2] for the first quarter was $0.7 million higher than in the same period of 2009. Overall the increase was attributed to higher EBITDA[1] and lower interest offset by higher current income taxes and maintenance capital expenditures.

Monthly distributions for the first quarter at 6.55¢ per Unit, represents an annual yield of 10.8% on a $7.25 price per Unit at March 31, 2010 and a payout ratio[3] of 60%. Based upon the first quarter, 100% of the distributions will represent interest on the subordinated note held by the Fund.

## Liquidity and Financing

***Cash flows from operating activities***

Cash flow from operating activities for the first quarter was $0.8 million, down $1.2 million over the same period in 2009, primarily due to $2.1 million of reduced working capital offset by increased EBITDA[1] from the same period in 2009. During the first quarter, working capital increased by $3.3 million mainly on higher inventory of $2.0 million and higher receivables of $1.5 million while reflecting the same past due profile as at year end. This increase in inventory did not lead to a corresponding increase in payables due to the settlement of normal year end bonuses of $0.7 million.

The financial structure of the Fund allows for maximum distributions of cash flow from operations to the unitholders and shareholders as outlined above in the distributable cash discussion. In recognition of impending higher interest rates and taxes, 40% of the cash flow from operations was diverted to avoid seasonal debt borrowings for working capital and purchase Units under the normal course issuer bid. Actual distributions and dividends paid during the first quarter, including those declared for December 2009, were $2.3 million with $0.8 million declared for March, which was paid April 14th.

***Normal Course Issuer Bid***

On November 16, 2009, the Fund initiated a normal course issuer bid to purchase up to 202,000 Units prior to November 15, 2010. During the first quarter, 42,136 Units (2009 – nil) were purchased at an average price of $7.14 per Unit and since the inception of the buyback program, 85,142 Units were purchased at an average price of $7.07 per Unit.

***Cash income taxes***

The cash income tax expense for the first quarter was $0.8 million, representing current income tax for Richards Packaging US. The loss carry forwards in Richards Packaging ensure that income tax leakage will be limited to Richards Packaging US until the new tax imposed upon publicly traded income trusts takes effect in 2011[4].

***Capital expenditures***

Capital expenditures for the first quarter were $0.5 million (2009 – $0.2 million), incurred mainly on account of maintenance capital. Expenditures classified as maintenance capital are mainly comprised of new moulds or refurbishment of moulds for replacement packaging driven by customer marketing programs. Maintenance capital is expected to be an additional $1.2 million for the remainder of the year[4].

***Financing activities and instruments***

Richards Packaging's credit facilities include a $47.7 million term loan (2009 – U.S.$51.0 million) with repayment on June 3, 2011 and up to $5.0 million in revolving debt to fund working capital expansion. The term loan facility bears interest at BA's plus a premium of 3.0% to 3.75% (2009 – 3.0% to 3.75%). The revolving credit facility bears interest at the prime rate plus a premium of 2.50% to 3.25% (2009 – 2.0% to 2.75%).

The credit facilities are subject to a number of covenants including the leverage ratio which is to maintain debt less than 2.75 times the trailing twelve months EBITDA[1]. As at March 31, 2010, our leverage ratio was 2.07, similar to the December 31, 2009 level of 2.13.

Subsequent to quarter end, both credit facilities were extended to mature in 2013 at a reduced cost of 0.5% and 1.0% in bank margining on the term credit and the revolving credit facilities, respectively. Also, the revolving credit facility was reduced to $5.0 million. Combined with cash flow from operations, management believes that adequate financing will be available for the foreseeable future[4].

Richards Packaging had entered into an interest rate swap contracts to June 5, 2009 on a notional principal amount equal to U.S.$30.0 million of term debt outstanding. The mark-to-market valuation of the swap contracts during the first quarter of the 2009 year gave rise to a gain of $0.3 million.

## Outlook[4]

Management believes that the performance of Richards Packaging is on track to meet ongoing requirements for working capital, capital expenditures and to sustain monthly distributions to unitholders at the newly established level for the remainder of the year and through 2011.

Revenue growth for the first quarter was above the long term industry average of 1-3%, however, given the current economic climate, management expects Richards Packaging's future organic growth rate to be more in line with the industry average. The prior positive impact of exchange translation has now reversed to reduce revenue with the exchange rate impact likely to continue at the current level for the next quarter and subside to $2.2 million and $1.2 million for the third and fourth quarters, respectively, at current exchange rates of U.S./Cdn.$1.00.

EBITDA[1] for the first quarter was $5.6 million, up $0.6 million against the same period in 2009 and continues to track at levels exceeding 12%. The impact of foreign exchange translation of Richards Packaging US is expected to impact each of the next quarters by $0.3 million.

Interest expense decreased $0.7 million and cash income taxes increased $0.3 million in the first quarter. Both are expected to run at their respective first quarter levels for the remainder of the year.

Maintenance capital will continue to be funded by cash flow from operations and is expected to grow in 2010 with the commitment of an additional $0.5 million for computer systems software to bring Richards Packaging US up to the same standard as Richards Canada.

Distributable cash flow sensitivity on annual basis to foreign currency fluctuations is $0.1 million for every U.S./Cdn. 1¢ movement.

## Risks and Uncertainties

Investment in Units involves risks inherent in the ordinary course of business of Richards Packaging including: sustainability of customer and supplier relationships, financial stability of customers, lack of written customer and supplier agreements, competition from other packaging companies, the extent and duration of an economic downturn, patent and trademark challenges, inventory obsolescence, trade risks, resin price and exchange rate fluctuations, interest rate volatility, liquidity risks, income taxes and reliance on key personnel. For a detailed description of these and other risks and uncertainties facing investors in the Fund please refer to the 2009 Annual Information Form dated March 5, 2010. To management's knowledge, no significant changes to these risks and uncertainties have occurred in the first quarter of 2010.

## Critical Accounting Estimates

The preparation of the consolidated financial statements in conformity with Canadian generally accepted accounting practices requires the Fund to make estimates and assumptions which affect the reported, and disclosure of, amounts for assets and liabilities as at March 31, 2010 and revenue and expenses for the period then ended. Changes in these accounting estimates may have an impact on the financial results of Richards Packaging and the Fund. There have not been any significant changes in the critical accounting estimates of the Fund in the first quarter of 2010, relative to December 31, 2009. For more information on critical accounting estimates, see the Management's Discussion and Analysis, the audited consolidated financial statements and the notes to the consolidated financial statements included in the Fund's 2009 Annual Report.

## New Accounting Pronouncements

***International Financial Reporting Standards*** *("IFRS")*

Commencing in the first quarter of 2011, the Fund's financial statements will be prepared in accordance with IFRS, with 2010 comparative figures and the January 1, 2010 opening balance sheet restated to conform to IFRS. Based on work performed to date, the key areas expected to be impacted with the first time adoption of IFRS are: (a) enhanced note disclosure in the consolidated financial statements; (b) the reclassification of non-controlling interests; and (c) the investment in Joint Venture. Management confirms that under IFRS, the Units will continue to be presented as equity on the balance sheet.

## Disclosure Controls and Internal Controls over Financial Reporting

There have been no changes in the Fund's internal controls over financial reporting during the first quarter that have materially affected, or are reasonably likely to materially affect, its internal controls over financial reporting.

## Additional Information

Additional information relating to the Fund is available on Richards Packaging's website at www.richardspackaging.com, SEDAR at www.sedar.com or TSX at www.tsx.com

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1 *Management defines EBITDA as earnings before amortization, interest, unrealized losses (gains) on financial instruments and taxes. EBITDA is the same as income before under noted items, income taxes and non-controlling interests as outlined in the interim consolidated financial statements. Management believes that in addition to net income, EBITDA is a useful supplemental measure for investors of earnings available for distribution prior to debt service, capital expenditures and taxes. Management uses this measure as a starting point in the determination of earnings available for distribution to unitholders and exchangeable shareholders. In addition, EBITDA is intended to provide additional information on operating performance. This earnings measure should not be construed as an alternative to net income or as an alternative to cash flows from operating, investing and financing activities as a measure of liquidity and cash flows. EBITDA does not have a standardized meaning prescribed by GAAP and therefore the method of calculating EBITDA may not be comparable to similar measures presented by other companies or income trusts.*

2 *Management defines distributable cash flow, in accordance with Richards Packaging's credit agreement, as EBITDA less interest, cash income tax expense, maintenance capital expenditures and loan payments. The objective of presenting this measure is to calculate the amount which is available for distribution to unitholders and exchangeable shareholders. Investors are cautioned that distributable cash flow should not be construed as an alternative to cash flow from operating, investing and financing activities as a measure of liquidity and cash flows. Distributable cash flow does not have a standardized meaning prescribed by GAAP and therefore the method of calculating distributable cash flow may not be comparable to similar measures presented by other income trusts.*

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

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

*exchange and interest rates, liability claims, reliance on key personnel, compliance with environmental, trade and other laws, changes to applicable tax laws, as well as other risks and uncertainties, as more fully described in other reports and filings made by us with securities regulatory authorities and available at www.sedar.com. While management believes that the expectations expressed and the assumptions underlying same are reasonable, there can be no assurance that such expectations and assumptions will prove to be correct. In evaluating forward-looking information, readers should carefully consider the foregoing factors and various other factors which could cause actual results or events to differ materially from those indicated in the forward-looking information. Neither the Fund nor Richards Packaging assumes any obligation to publicly update or revise any such assumptions or any of the forward-looking information contained herein to reflect subsequent information, events, developments or changes in risk factors.*

**Notice to Unitholders**
The attached consolidated financial statements have not been reviewed by the Fund's external auditors

## Richards Packaging Income Fund

# CONSOLIDATED BALANCE SHEETS

*Unaudited*

*[expressed in thousands of dollars]*

*As at March 31, 2010 and December 31, 2009*

| | 2010<br>$ | 2009<br>$ |
|---|---|---|
| **ASSETS** | | |
| **Current** | | |
| Cash and cash equivalents | **163** | **2,071** |
| Accounts receivable | **20,106** | **18,873** |
| Inventory | **32,717** | **31,289** |
| Prepaid expenses | **2,156** | **2,010** |
| Income taxes recoverable | **—** | **10** |
| **Total current assets** | **55,142** | **54,253** |
| Capital assets | **4,293** | **4,180** |
| Intangible assets | **35,524** | **37,514** |
| Future income tax assets | **53** | **21** |
| Goodwill | **71,044** | **72,010** |
| | **166,056** | **167,978** |
| **LIABILITIES AND UNITHOLDERS' EQUITY** | | |
| **Current** | | |
| Bank indebtedness | **130** | **—** |
| Accounts payable and accrued liabilities | **18,380** | **18,604** |
| Income taxes payable | **363** | **—** |
| Distributions and dividends payable | **775** | **780** |
| Due to previous shareholder of acquired company | **801** | **825** |
| **Total current liabilities** | **20,449** | **20,209** |
| Long-term debt *[note 3]* | **47,459** | **47,402** |
| Future income tax liabilities | **7,714** | **8,581** |
| **Total liabilities** | **75,622** | **76,192** |
| Non-controlling interests *[note 4]* | **14,903** | **15,081** |
| **Unitholders' equity** | | |
| Units *[note 5]* | **94,044** | **94,349** |
| Deficit | **(12,989)** | **(13,469)** |
| Accumulated other comprehensive loss | **(5,524)** | **(4,175)** |
| | **(18,513)** | **(17,644)** |
| **Total unitholders' equity** | **75,531** | **76,705** |
| | **166,056** | **167,978** |

*See accompanying notes*

| | | |
|---|---|---|
| *"Wayne McLeod"* | *"Gerry Glynn"* | *"Enzio Di Gennaro"* |
| Chair – Audit Committee | CEO – Richards Packaging Inc. | CFO – Richards Packaging Inc. |

## Richards Packaging Income Fund

### CONSOLIDATED STATEMENTS OF NET INCOME AND COMPREHENSIVE INCOME, DEFICIT AND ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

*Unaudited*

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

*For the three months ended March 31*

| | 2010<br>$ | 2009<br>$ |
|---|---|---|
| **Revenue** | 45,158 | 46,417 |
| Cost of products sold | 36,940 | 38,698 |
| | 8,218 | 7,719 |
| General and administrative expenses | 2,538 | 2,615 |
| Foreign currency loss | 56 | 71 |
| **Income before under noted items, income taxes and non-controlling interests** | 5,624 | 5,033 |
| Amortization and debt accretion | 2,044 | 2,062 |
| Patent defense costs | 63 | 72 |
| Interest expense | 621 | 1,306 |
| Losses on financial instruments | — | 1,528 |
| **Income before income taxes and non-controlling interests** | 2,896 | 65 |
| Provision for (recovery of) income taxes *[note 6]* | | |
| Current | 779 | 430 |
| Future | (771) | (764) |
| | 8 | (334) |
| Non-controlling interests *[note 4]* | 433 | 60 |
| **Net income for the period** | 2,455 | 339 |
| **Basic and diluted income per Unit** *[note 5]* | $0.244 | $0.034 |
| Other comprehensive income (loss) | | |
| Unrealized foreign currency translation of Richards Packaging US | (1,349) | 1,380 |
| **Comprehensive income for the period** | 1,106 | 1,719 |
| **STATEMENT OF DEFICIT** | | |
| Deficit, beginning of period | (13,469) | (23,433) |
| Net income for the period | 2,455 | 339 |
| Distributions declared to unitholders | (1,975) | (1,891) |
| **Deficit, end of period** | (12,989) | (24,985) |
| **ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)** | | |
| Accumulated other comprehensive income (loss), beginning of period | (4,175) | 4,414 |
| Other comprehensive income (loss) | (1,349) | 1,380 |
| **Accumulated other comprehensive income (loss), end of period** | (5,524) | 5,794 |

*See accompanying notes*

## Richards Packaging Income Fund

# CONSOLIDATED STATEMENTS OF CASH FLOWS

*Unaudited*

*[expressed in thousands of dollars]*

*For the three months ended March 31*

| | 2010<br>$ | 2009<br>$ |
|---|---|---|
| **OPERATING ACTIVITIES** | | |
| Net income for the period | 2,455 | 339 |
| Add (deduct) items not involving cash | | |
| Amortization | | |
| Capital assets amortization | 337 | 353 |
| Intangible assets amortization | 1,651 | 1,682 |
| Debt accretion | 56 | 27 |
| Future income taxes | (771) | (764) |
| Non-controlling interests | 433 | 60 |
| Losses (gains) on financial instruments | | |
| Interest rate swap contract | — | (288) |
| Foreign currency translation of debt | — | 1,816 |
| | 4,161 | 3,225 |
| Net change in non-cash operating elements of working capital *[note 7]* | (3,338) | (1,243) |
| **Cash provided by operating activities** | 823 | 1,982 |
| **INVESTING ACTIVITIES** | | |
| Additions to capital assets | (510) | (182) |
| Expenditures on computer systems software | (5) | (7) |
| **Cash used in investing activities** | (515) | (189) |
| **FINANCING ACTIVITIES** | | |
| Increase (decrease) in bank indebtedness | 152 | (37) |
| Proceeds from debt | — | 2,000 |
| Purchase of trust units for cancellation *[note 5]* | (305) | — |
| Dividends paid to exchangeable shareholders | (360) | (575) |
| Distributions paid to unitholders | (1,978) | (2,837) |
| **Cash used in financing activities** | (2,491) | (1,449) |
| Foreign currency income (loss) | 275 | (485) |
| **Net decrease in cash and cash equivalents** | (1,908) | (141) |
| Cash and cash equivalents, beginning of period | 2,071 | 202 |
| **Cash and cash equivalents, end of period** | 163 | 61 |

*See accompanying notes*

*[expressed in thousands of dollars]*

## 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 of the Fund [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.

## 2. BASIS OF PRESENTATION

These unaudited interim consolidated financial statements of the Fund have been prepared in accordance with Canadian generally accepted accounting principles using disclosure standards appropriate for interim financial statements. As such these statements do not contain all the explanatory notes, descriptions or accounting policies or other disclosures that can be found in the Fund's 2009 audited annual consolidated financial statements. The accounting policies used in the preparation of these unaudited interim consolidated financial statements are consistent with the 2009 audited annual consolidated financial statements.

## 3. SHORT- AND LONG-TERM DEBT

Richards Packaging Inc. has a revolving credit facility of $7,000, of which nil was drawn as at March 31, 2010 [2009 – nil]. Long-term debt reflects a decrease of $260 for unamortized debt issue costs [2009 – $317]. Subsequent to March 31, 2010, the revolving credit facility was reduced to $5,000 and together with the term facility was extended to June 2013 with the interest premium over LIBOR, or prime rate, lowered by 0.5% on the term facility and 1.0% on the revolving facility.

## 4. NON-CONTROLLING INTERESTS

As at March 31, 2010, 1,775,033 exchangeable shares remain outstanding. The change in carrying value of the non-controlling interests represents $433 of net income [2009 – $60] and $253 of unrealized loss from the translation of Richards Packaging US [2009 – $163 gain], offset by $358 of dividends [2009 – $385].

## 5. UNITS

| | Number of Units | Carrying value $ | Discount $ | $ |
|---|---|---|---|---|
| **Balance, December 31, 2009** | **10,090,216** | **94,179** | **170** | **94,349** |
| Purchased for cancellation, net | **(42,136)** | **(393)** | **88** | **(305)** |
| **Balance, March 31, 2010** | **10,048,080** | **93,786** | **258** | **94,044** |

During the quarter ended March 31, 2010 Units purchased were at an average price of $7.14/Unit.

*[expressed in thousands of dollars]*

| | 2010 | 2009 |
|---|---|---|
| Basic Units outstanding | **10,051,468** | **10,114,722** |
| Diluted Units outstanding | **11,826,501** | **11,908,255** |

## 6. INCOME TAXES

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

| | 2010<br>$ | 2009<br>$ |
|---|---|---|
| Income before income taxes and non-controlling interests | **2,896** | **65** |
| Distributions to unitholders, not subject to income taxes in the Fund | **(1,910)** | **(2,318)** |
| Income (loss) subject to income taxes | **986** | **(2,253)** |
| Statutory tax rate | ***31.5%*** | ***32.5%*** |
| Income taxes expense (recovery) at statutory tax rate | **311** | **(732)** |
| **Future income tax recovery** | **771** | **764** |
| Current period adjustments | **(303)** | **398** |
| **Current income taxes** | **779** | **430** |

## 7. CONSOLIDATED STATEMENTS OF CASH FLOWS

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

| | 2010<br>$ | 2009<br>$ |
|---|---|---|
| Accounts receivable | **(1,486)** | **(860)** |
| Inventory | **(2,049)** | **2,346** |
| Prepaid expenses | **(178)** | **(402)** |
| Accounts payable and accrued liabilities | **7** | **(2,532)** |
| Income taxes recoverable | **368** | **205** |
| | **(3,338)** | **(1,243)** |

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

| | 2010<br>$ | 2009<br>$ |
|---|---|---|
| Interest paid | **627** | **1,257** |
| Income taxes paid | **512** | **221** |