March 7, 2013

INDEPENDENT AUDITOR'S REPORT

To the Unitholders of Richards Packaging Income Fund

We have audited the accompanying consolidated financial statements of Richards Packaging Income Fund and its subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2012 and December 31, 2011 and the consolidated statements of net income and comprehensive income, changes in equity and cash flows for the years ended December 31, 2012 and December 31, 2011, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Richards Packaging Income Fund and its subsidiaries as at December 31, 2012 and December 31, 2011 and its financial performance and its cash flows for the years ended December 31, 2012 and December 31, 2011 in accordance with International Financial Reporting Standards.

(signed) *"PricewaterhouseCoopers LLP"*

Chartered Accountants, Licensed Public Accountants
Toronto, Canada

Richards Packaging Income Fund

STATEMENTS OF NET INCOME AND COMPREHENSIVE INCOME

For the years ended December 31 *[Consolidated]*

Cdn$ thousands	Notes	2012	2011
Revenue	*4*	**191,333**	182,263
Cost of products sold	*5*	**168,596**	161,388
Administrative expenses	*5*	**9,160**	9,011
Foreign currency gain	*18*	**(62)**	(20)
Patent defense legal costs	*19*	**177**	311
Disputed duties	*19*	**436**	—
Profit from operations		**13,026**	11,573
Financial expenses	*14, 18*	**2,547**	2,651
Exchangeable shares			
Mark-to-market loss (gain)	*15, 18*	**1,154**	(1,409)
Distributions	*15*	**832**	829
Share of (income) loss - Vision	*17*	**(96)**	66
Income before income taxes		**8,589**	9,436
Income tax expense (income)			
Current taxes	*6*	**2,701**	1,053
Deferred taxes	*6*	**(173)**	285
		2,528	1,338
Net income for the year		**6,061**	8,098
Basic income per Unit	*15*	***$0.56***	*$0.75*
Diluted income per Unit	*15*	***$0.56***	*$0.64*
Other comprehensive income			
Richards Packaging US			
Currency translation adjustment		**(1,293)**	1,326
Comprehensive income for the year		**4,768**	9,424

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

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

Richards Packaging Income Fund

STATEMENTS OF FINANCIAL POSITION

As at December 31 *[Consolidated]*

Cdn$ thousands	Notes	2012	2011
Current Assets			
Cash and cash equivalents	*7*	**893**	3,874
Accounts receivable	*8*	**19,718**	19,081
Inventory	*9, 18*	**40,379**	37,209
Prepaid expenses and deposits	*10*	**2,316**	2,138
Income taxes recoverable	*6*	**65**	283
		63,371	62,585
Current Liabilities (*excluding debt*)			
Accounts payable and accruals	*11*	**(20,764)**	(21,303)
Distributions payable	*15*	**(771)**	(773)
Due to previous shareholder	*11*	**(784)**	(802)
		(22,319)	(22,878)
WORKING CAPITAL	*2*	**41,052**	39,707
Long-term Assets			
Plant and equipment	*4, 12*	**3,564**	3,606
Investment - Vision	*4, 17*	**672**	576
Intangible assets	*4, 13*	**18,285**	24,990
Goodwill	*4, 13*	**70,367**	71,088
		92,888	100,260
Long-term Liabilities (*excluding debt*)			
Deferred income taxes	*6*	**(6,353)**	(6,619)
NET OPERATING ASSETS	*2*	**127,587**	133,348
Debt			
Term debt	*14*	**41,500**	44,500
Exchangeable shares - current	*15, 18*	**8,943**	7,789
		50,443	52,289
Equity			
Unitholders' capital	*15*	**72,617**	81,300
Retained earnings		**11,486**	5,425
Accumulated other comprehensive loss		**(6,959)**	(5,666)
		77,144	81,059
CAPITAL	*16, 18*	**127,587**	133,348
Commitments and contingencies	*19*		

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

STATEMENTS OF CHANGES IN EQUITY

For the years ended December 31 *[Consolidated]*

Cdn$ thousands	**Notes**	**Unitholders' capital**	**Retained earnings (deficit)**	**AOCL[a)]**	
December 31, 2010		89,745	(2,673)	(6,992)	80,080
Share of comprehensive income			8,098	1,326	9,424
Distributions	*15*	(8,445)			(8,445)
Purchased for cancellation, net	*15*	—			—
December 31, 2011		81,300	5,425	(5,666)	81,059
Share of comprehensive income			**6,061**	**(1,293)**	**4,768**
Distributions	*15*	**(8,439)**			**(8,439)**
Purchased for cancellation, net	*15*	**(244)**			**(244)**
December 31, 2012		**72,617**	**11,486**	**(6,959)**	**77,144**

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.

STATEMENTS OF CASH FLOWS

For the years ended December 31 *[Consolidated]*
[2011 Restated – note 3]

Cdn$ thousands	Notes	2012	2011
OPERATING ACTIVITIES			
Profit from operations		**13,026**	11,573
Add items not involving cash			
Plant and equipment depreciation	*12*	**1,310**	1,187
Intangible assets amortization	*13*	**6,447**	6,440
Income taxes payments	*6*	**(2,483)**	(636)
		18,300	18,564
Changes in non-cash working capital	*20*	**(5,058)**	844
Cash provided by operating activities		**13,242**	19,408
INVESTING ACTIVITIES			
Additions to plant and equipment	*12*	**(1,291)**	(944)
Additions to intangible assets	*13*	**—**	(90)
Cash used in investing activities		**(1,291)**	(1,034)
FINANCING ACTIVITIES			
Repayment of term debt	*14*	**(3,000)**	(3,500)
Financial expenses paid	*14*	**(2,497)**	(2,644)
Purchase of Fund units for cancellation	*15*	**(244)**	—
Distributions paid to exchangeable shareholders	*15*	**(832)**	(829)
Distributions paid to unitholders	*15*	**(8,439)**	(8,445)
Cash used in financing activities		**(15,012)**	(15,418)
Increase (decrease) in cash and cash equivalents		**(3,061)**	2,956
Cash and cash equivalents, beginning of year	*7*	**3,874**	979
Foreign exchange effect on cash and cash equivalents		**80**	(61)
Cash and cash equivalents, end of year	*7*	**893**	3,874

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

1. FORMATION OF THE FUND AND AQUISITION

Richards Packaging Income Fund [the "Fund"] is an open-ended, limited purpose trust established under the laws of the Province of Ontario, Canada by a Declaration of Trust dated February 26, 2004. The Fund completed an initial public offering of trust Units [the "Units"] on April 7, 2004, through the Toronto Stock Exchange, to facilitate the acquisition of Richards Packaging Inc.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial statements of the Fund have been prepared in compliance with International Financial Reporting Standard ["IFRS"]. The measurement basis used was the historic cost convention, except for exchangeable shares which are measured at fair value. Working capital is defined as current assets less current liabilities (excluding debt) and Net operating assets is defined as working capital plus long-term assets less long-term liabilities (excluding debt). Accounting policies utilized under IFRS are consistent with those previously applied except as disclosed in note 3. 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., The E.J. McKernan Company and McKernan Packaging - Richards de Mexico, S.A. de c.v. [collectively "Richards Packaging US"]. Vision Plastics Inc. ["Vision"], which is jointly controlled and accounted for under the equity method, is a plastic container manufacturing plant located in Vancouver, British Columbia, Canada. Holdings and its subsidiaries are referred to as "Richards Packaging".

Foreign currency translation

The Canadian dollar is the functional currency for the Fund and its investments, except for Richards Packaging US, and therefore accounts in foreign currencies have been translated into Canadian dollars. Monetary items are recorded at exchange rates in effect at the statement of financial position dates and non-monetary items are recorded at the exchange rates in effect on the date of the transactions. Revenue and expenses are recorded at average exchange rates prevailing during the year. Gains and losses arising from foreign currency translations are included in profit from operations.

Richards Packaging US has a US dollar functional currency. All assets and liabilities are translated at exchange rates in effect on the statement of financial position dates. Revenue and expenses are translated at average exchange rates prevailing during the year. Effects of translation are included in equity as accumulated other comprehensive loss.

Use of estimates

Preparation of financial statements required management to make estimates and assumptions which affect the reported amounts of assets, liabilities, revenue and expenses. By their nature, these estimates are subject to measurement uncertainty and are reviewed periodically. Any adjustments deemed necessary are made prospectively in the period in which they are identified. Management believes that the testing for impairment of assets and the recognition of deferred income taxes are critical accounting estimates that involve a high degree of judgment and complexity.

Revenue recognition

Revenue is recognized when significant risks and benefits of ownership are transferred to the customer, the sales price 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. Management estimates and records an allowance for product returns and discounts for each reporting period.

Operating leases

Rental payments and lease inducements are expensed on a straight line basis over the term of the leases.

Income taxes

The liability method to account for income taxes is utilized, with current taxes reflecting the expected income tax payable for the year and any adjustments in respect of amounts owing from previous years. Deferred tax assets and liabilities are determined based on temporary differences between the carrying values and the tax bases of assets and liabilities at substantively enacted tax rates that will be in effect when these differences are expected to reverse. Deferred tax assets are recognized only to the extent that it is probable that the assets will be realized.

Inventory

Inventory is valued at the lower of cost and net realizable value. Cost of inventory includes purchase price plus inbound freight for distributed products and direct variable costs and related production overheads for manufactured products, determined on a first-in, first-out basis. If the carrying value exceeds the net realizable value a write-down is recognized.

Plant and equipment

Plant and equipment are initially recorded at cost. Repairs and maintenance are charged to income as incurred. Depreciation is computed over the remaining estimated useful lives as outlined below:

Manufacturing equipment	straight-line over 7 years
Moulds	straight-line over 4 years
Computer equipment	30% diminishing balance
Warehouse and office equipment	20% diminishing balance
Leasehold improvements	straight-line over lease term

Intangible assets

Intangible assets with a finite life are recorded at cost and are amortized on a straight-line basis over the period of expected future benefit. Customer relationships and contracts are amortized over 10 to 15 years, patents are amortized over 12 years and computer systems software is amortized over 5 years. Trademarks have indefinite lives and therefore are not amortized.

Goodwill

At the acquisition date, goodwill is recorded at the excess of the purchase price of an acquired business over fair value of the net assets acquired. Management monitors goodwill for the entire organization, a group of cash-generating units, and performs an impairment test on its goodwill annually, or more frequently if circumstances indicate a possible impairment.

Impairment testing of long-term assets

Non-current assets are reviewed annually for impairment or whenever events or changes in circumstances indicate that their carrying value may not be recoverable. For purposes of evaluating the recoverability, a test is performed using discounted future net cash flows. Should impairment exist, the loss would be measured as the difference between the carrying value and the recoverable amount and recognized by way of an additional current period charge. Management has not identified any such impairment losses to date.

Exchangeable shares

Exchangeable shares are classified as debt and carried at fair value based upon the year end trading price of Units into which they are convertible *[note 15]*. Mark-to-market changes in value along with distributions are expensed during the period.

3. CHANGE IN ACCOUNTING POLICY AND NEW ACCOUNTING PRONOUNCEMENTS

The Fund has changed the presentation of the statements of cash flows to start with *Profit from operations* rather than *Net income* and moved from Operating activities *Distributions paid to exchangeable shareholders* and *Financial expenses paid* to Financing activities. Application of this change provides a more consistent classification with that of the statements of net income and comprehensive income and statements of financial position.

There are no new IFRS that became effective after January 1, 2012 that would be expected to have a material impact on these financial statements.

December 31, 2012 and 2011 [$ thousands]

4. SEGMENTED INFORMATION

Richards Packaging's operations consist of one reporting segment, principally the distribution of plastic and glass containers and associated closures. Geographic information is provided below and is determined based on the country of sales origination. No customer represents greater than 5% of total revenue.

	Canada		United States	
	2012	**2011**	**2012**	**2011**
Revenue	**94,896**	93,378	**96,437**	88,885
Non-current assets	**42,630**	48,681	**50,258**	51,579

5. EXPENSES BY NATURE

	2012	**2011**
Salaries and wages	**17,643**	17,509
Benefits	**2,954**	3,045
Bonuses	**841**	630
Long-term incentive plan awards	**100**	100
Employee compensation	**21,538**	21,284
Inventory sold	**127,917**	119,925
Inventory provisions	**697**	1,526
Selling, distribution and other costs	**16,141**	16,347
Depreciation and amortization	**7,757**	7,625
Lease expenses	**3,706**	3,692
Cost of products sold and administrative expenses	**177,756**	170,399

Management is eligible to participate in the long-term incentive plan [the "LTIP"]. Awards for the cash reimbursement of Units purchased under the LTIP will vest over a three-year period, with one-third of the award vesting each year. The Trustees committed to annual funding of $100 for three years starting in 2010. Total salaries and benefits for executive officers was $1,460 [2011 – $1,291].

December 31, 2012 and 2011 [$ thousands]

6. INCOME TAXES

Significant components of deferred income taxes are as follows:

	2012	expense/ (income)	f/x[b)]	2011	expense/ (income)	f/x[b)]	2010
Deferred tax liabilities							
Plant and equipment	**569**	**9**	**(6)**	566	206	4	356
Customer relationships[a)]	**5,594**	**(1,753)**	**(84)**	7,431	(1,865)	93	9,203
Computer system software	**177**	**(50)**	**(5)**	232	(12)	5	239
Patents[a)]	**430**	**(75)**	—	505	(94)	—	599
Other	**112**	**77**	**(6)**	41	126	2	(87)
Deferred tax assets							
Loss carryforward for tax	**(185)**	**1,587**	—	(1,772)	1,894	—	(3,666)
Working capital	**(344)**	**32**	**8**	(384)	30	(9)	(405)
	6,353	**(173)**	**(93)**	6,619	285	95	6,239

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

b) f/x = foreign exchange differences

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

	2012	2011
Income subject to income taxes	**8,589**	9,436
Statutory tax rate	*26.3%*	*27.9%*
Income tax expense at statutory tax rate	**2,259**	2,628
Deferred income taxes	**173**	(285)
Current period adjustments		
Foreign tax differential	**(974)**	(1,239)
Foreign rate differential	**677**	120
Disputed duties	**74**	—
Exchangeable shares		
Distributions and mark-to-market loss (gain)	**522**	(162)
Other items	**(30)**	(9)
Current income taxes	**2,701**	1,053

December 31, 2012 and 2011 [$ thousands]

NOTES TO FINANCIAL STATEMENTS

7. CASH AND CASH EQUIVALENTS

	2012	2011
Cash at bank	**1,741**	2,435
Demand deposits	—	2,500
Issued and outstanding cheques	**(848)**	(1,061)
	893	3,874

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

8. ACCOUNTS RECEIVABLE

	2012	2011
Current	**12,559**	12,123
Up to 60 days past due	**6,502**	6,120
61 – 90 days past due	**376**	547
Over 90 days past due	**468**	526
Trade receivables	**19,905**	19,316
Allowance for doubtful accounts[a)]	**(382)**	(318)
Supplier rebates	**195**	83
	19,718	19,081

a) Management recorded new provisions of $157 [2011 – $62] and wrote off $99 [2011 – $251]. The remaining non-cash change in the accounts reflects foreign exchange differences.

9. INVENTORY

	2012	2011
Goods purchased for resale	**35,573**	33,304
Goods in transit	**4,072**	3,094
Manufacturing raw materials	**577**	605
Manufactured finished goods	**2,378**	2,417
Reserve for slow moving inventory[a)]	**(2,221)**	(2,211)
	40,379	37,209

a) Management recorded a provision of $697 [2011 – $1,526] and recognized write-offs of $687 [2011 – $1,162].

December 31, 2012 and 2011 [$ thousands]

10. PREPAID EXPENSES AND DEPOSITS

	2012	2011
Deposits for commitment to purchase goods	**458**	443
Rent and deposits	**786**	797
Insurance	**30**	28
Bank interest	**112**	144
Property taxes	**437**	266
Other deposits	**493**	460
	2,316	2,138

11. ACCOUNTS PAYABLE AND ACCRUALS

	2012	2011
Trade payables	**15,949**	17,122
Rebates	**406**	368
Staffing expenses[a)]	**1,316**	1,573
Professional fees	**232**	317
Leases	**396**	414
Disputed duties *[note 19]*	**436**	—
Sales tax	**788**	379
Other payables	**1,241**	1,130
	20,764	21,303

a) Management bonuses included in staffing at December 31, 2012 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.

NOTES TO FINANCIAL STATEMENTS

December 31, 2012 and 2011 *[$ thousands]*

12. PLANT AND EQUIPMENT

	Manufacturing Equipment	Moulds	Warehouse & office	Computer equipment	Leaseholds	Totals
December 31, 2010						
Carrying value	4,559	5,034	1,101	1,274	1,283	13,251
Accumulated Depreciation	(3,488)	(3,840)	(660)	(936)	(507)	(9,431)
Net book value	1,071	1,194	441	338	776	3,820
Additions	191	650	36	58	9	944
Depreciation	(328)	(504)	(53)	(129)	(173)	(1,187)
Foreign exchange differences	133	(65)	4	(5)	(38)	29
December 31, 2011						
Carrying value	4,883	5,619	1,141	1,327	1,254	14,224
Accumulated Depreciation	(3,816)	(4,344)	(713)	(1,065)	(680)	(10,618)
Net book value	1,067	1,275	428	262	574	3,606
Additions	**239**	**899**	**49**	**48**	**56**	**1,291**
Depreciation	**(299)**	**(614)**	**(100)**	**(85)**	**(212)**	**(1,310)**
Foreign exchange differences	**16**	**(26)**	**(6)**	**1**	**(8)**	**(23)**
December 31, 2012						
Carrying value	**5,138**	**6,492**	**1,184**	**1,376**	**1,302**	**15,492**
Accumulated Depreciation	**(4,115)**	**(4,958)**	**(813)**	**(1,150)**	**(892)**	**(11,928)**
Net book value	**1,023**	**1,534**	**371**	**226**	**410**	**3,564**

December 31, 2012 and 2011 [$ thousands]

13. INTANGIBLE ASSETS AND GOODWILL

	Customer relationship	Patents	Trade-marks	Computer software	Intangible assets	Goodwill
December 31, 2010						
Carrying value	62,873	3,716	3,312	2,219	72,120	70,390
Accumulated amortization	(37,669)	(1,751)		(1,592)	(41,012)	
Net book value	25,204	1,965	3,312	627	31,108	70,390
Additions		5		85	90	
Amortization	(5,949)	(323)		(168)	(6,440)	
Foreign exchange differences	108	43	25	56	232	698
December 31, 2011						
Carrying value	62,981	3,764	3,337	2,360	72,442	71,088
Accumulated amortization	(43,618)	(2,074)		(1,760)	(47,452)	
Net book value	19,363	1,690	3,337	600	24,990	71,088
Additions		—		—	—	
Amortization	**(5,997)**	**(323)**		**(127)**	**(6,447)**	
Foreign exchange differences	**(153)**	**(63)**	**(25)**	**(17)**	**(258)**	**(721)**
December 31, 2012						
Carrying value	**62,851**	**3,701**	**3,312**	**2,343**	**72,207**	**70,367**
Accumulated amortization	**(49,638)**	**(2,397)**		**(1,887)**	**(53,922)**	
Net book value	**13,213**	**1,304**	**3,312**	**456**	**18,285**	**70,367**

Intangible assets and Goodwill are not deductible for tax purposes. Goodwill has been assessed by calculating recoverable amount determined based on the value in use. Four year cash flow budgets, prepared using growth rates experienced in the industry and approved by the Board, were used with the application of a pre-tax discount rate of 14%. For periods beyond the budget period, cash flows were extrapolated using long term average growth rates of 1%. Reasonably possible changes in key assumptions would not cause the recoverable amount to fall below the carrying value.

14. REVOLVING AND TERM DEBT

Richards Packaging has available both revolving and term debt credit facilities, which were refinanced on May 18, 2012 to extend the maturity by 3 years to May 31, 2015 and lower the interest rate by 0.95% on the term and revolving facilities. The revolving credit facility availability of $5,000 [2011 – $5,000] bears interest at the prime rate plus a premium of 0.55% to 0.80%. The effective interest rate at December 31, 2012 was 3.6% [2011 – 3.6%]. There was no amount drawn on the facility at December 31, 2012 or 2011. The term facility of $41,500 [2011 – $44,500] bears interest at the bankers' acceptance borrowing rate plus a premium of 1.55% to 1.80%. The effective interest rate at December 31, 2012 was 3.4% [2011 – 3.9%]. Repayments of term debt of $3,000 [2011 – $3,500] were made during the year ended December 31, 2012.

December 31, 2012 and 2011 [$ thousands]

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

	2012	**2011**
Interest expense	**1,568**	1,920
Credit card fees	**662**	604
Bank refinancing fees	**100**	—
Credit facility charges	**217**	127
	2,547	2,651

The banking syndicate has a first charge over all of Richards Packaging's assets as collateral for the revolving and term credit facilities. Richards Packaging is in compliance with all covenants [note 16].

15. UNITS AND EXCHANGEABLE SHARES

Number outstanding	**Units basic**	**Weighted average**	**Exchangeable shares**	**Units diluted**	**Weighted average**
December 31, 2010	10,743,470	10,054,973	1,059,043	11,802,513	11,808,428
Units purchased	—			—	
December 31, 2011	10,743,470	10,743,470	1,059,043	11,802,513	11,802,513
Units purchased	(27,500)			(27,500)	
December 31, 2012	**10,715,970**	**10,735,721**	**1,059,043**	**11,775,013**	**11,794,764**

The impact on income per Unit of the mark-to-market loss (gain) and distributions to exchangeable shareholders is anti-dilutive which reverts back to basic income per Unit [2011 – dilutive $0.11 per Unit].

Fund Units

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

The Fund initiated a normal course issuer bid on March 13, 2012 to purchase up to 200,000 Units prior to March 12, 2013. During the year, 27,500 Units were purchased [2011 – nil] at an average price of $8.85/Unit.

Exchangeable shares

Exchangeable shares were issued by Richards Packaging to officers on the initial public offering and in connection with two business acquisitions. The exchangeable shares issued by Holdings and Richards Packaging Holdings (US) Inc. are redeemable on the fifth anniversary of their issue date and are retractable by the shareholders at any time. A retraction or redemption of exchangeable shares will be paid in Units on a one-for-one basis. The Fund has the option to settle the redemption of Exchangeable shares issued by Richards Packaging Holdings (US) Inc. in cash. Exchangeable shares carry the right to vote at any meeting that unitholders are entitled to vote on the same basis. During the year, there were no share conversions.

Distributions

Distributions are made monthly to unitholders of record on the last business day of each month and paid on the 14^{th} day of the following month. Distributions in 2012 began at $704 and ended at $702, 6.55¢ per Unit, reflecting unit buyback activity by the Fund. The board of Trustees approved a reduction in the capital account for distributions made for 2012.

Distributions paid to exchangeable shareholders are not subordinated to distributions to unitholders and are declared on the same basis net of applicable taxes. Distributions are made monthly to shareholders of record on the last business day of each month and paid on the 14^{th} day of the following month.

16. CAPITAL STRUCTURE

Capital consists of unitholders' equity, exchangeable shares and secured credit facilities. Capital levels are maintained to meet the following objectives: optimizing the cost of capital at acceptable risk levels while providing an appropriate return to its unitholders and shareholders; balancing the interests of equity shareholders, exchangeable shareholders and debt holders; maintaining compliance with financial covenants; and preserving financial flexibility to benefit from potential opportunities as they arise. The leverage ratio covenant was 2.75 and the ratio of December 31, 2012 was 1.91 [2011 – 2.20]. In addition, the Fund is required to maintain a fixed charge coverage ratio of greater than 2.0 times and a minimum net worth of $70,000.

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

December 31, 2012 and 2011 [$ thousands]

17. RELATED PARTY TRANSACTIONS AND INVESTMENT

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

	2012	2011
Leases of facilities from entities related to certain officers	**477**	471
Management fee from Vision	**89**	—
Product purchases from Vision	**6,330**	6,069

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:

	2012	2011		2012	2011
Statement of financial position					
Assets			**Liabilities**		
Current assets	**1,046**	1,137	Current liabilities	**862**	421
Plant and equipment	**402**	433			
Total assets	**1,448**	1,570	**Net assets**	**586**	1,149
Statement of net income					
Revenue				**6,330**	6,069
Expenses				**6,138**	6,290
Net income (loss)				**192**	(221)

18. FINANCIAL INSTRUMENTS

Fair value

Cash and cash equivalents, accounts receivable, accounts payable and accruals, distributions 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 accounts receivable are classified as loans and receivables and measured at amortized cost. All financial liabilities excluding exchangeable shares are classified as other financial liabilities measured at amortized cost.

The fair value of term debt approximates the carrying value as it bears interest at rates comparable to current market rates that would be used to calculate fair value. Exchangeable shares are recorded at fair value, based on the year end trading price of Units into which they are convertible, with changes in value recorded through profit or loss.

Credit risk

Financial assets exposed to credit risk consist primarily of trade receivables arising from the sale of goods. Concentration of credit risk is limited due to the large number of customers and geographical dispersion. As at December 31, 2012, no customer represented 5% or more of accounts receivable or sales.

Credit quality is assessed prior to establishing customer accounts. Management continuously monitors the collection of overdue accounts. For customers with overdue accounts, internal collection staff takes appropriate action, including the placement of accounts on hold, with third party collection or legal action taken. On a quarterly basis, the allowance for doubtful accounts is reviewed by management. The allowance for doubtful accounts as at December 31, 2012 is sufficient to cover impaired accounts *[note 8]*.

Inventory obsolescence risk

Richards Packaging is exposed to inventory obsolescence due to customer insolvency when they have unique packaging, maturing product life cycles for stock items and large purchases due to economic order quantities. Management continually monitors over-aged inventory with a focus to realize value before obsolescence occurs. On a quarterly basis, the reserve for inventory obsolescence is reviewed by management. The reserve as at December 31, 2012 is sufficient to cover losses due to inventory obsolescence *[note 9]*.

Liquidity risk

The approach to managing liquidity risk is to ensure that sufficient funds are available to meet financial obligations as they come due *[notes 11, 19]*. This is achieved through a combination of cash balances *[note 7]*, availability of credit facilities *[note 14]*, surplus cash flow from operations, distribution policy and matching the maturities of financial assets and liabilities.

Interest rate risk

Exposure to interest rate risk arises due to variable interest rates on the revolving and term debt credit facilities. A 1.0% movement in interest rates would have impacted net income by $317 [2011 – $305].

Foreign currency risk

Exposure to U.S./Cdn. currency fluctuations arises on cross-border transactions and on the translation of cash flows of Richards Packaging US. A foreign currency gain of $62 has been recorded for the year ended December 31, 2012 [2011 – gain of $20] relating to cross-border transactions.

December 31, 2012 and 2011 [$ thousands]

19. COMMITMENTS AND CONTINGENCIES

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

	Related parties	Other	Total
2013	**483**	**3,269**	**3,752**
2014	**487**	**2,362**	**2,849**
2015	**491**	**1,640**	**2,131**
2016	**433**	**1,182**	**1,615**
2017	**410**	**913**	**1,323**
Thereafter	**1,307**	**939**	**2,246**

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.

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.

In 2012, the Mexican customs authorities assessed additional duties of $143 and penalties and interest of $293 for product misclassified on goods imported into Mexico. Management is challenging the assessment and has retained counsel to have the classification overturned. Management's evaluation of the claim is that it is more than likely that the claim will be successful. If successful, costs would be recovered net of legal costs of $99.

20. ADDITIONAL CASH FLOW INFORMATION

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

	2012	2011
Accounts receivable	**(868)**	(21)
Inventory	**(3,612)**	(1,602)
Prepaid expenses and deposits	**(209)**	168
Accounts payable and accruals	**(808)**	2,299
Disputed duties *[note 19]*	**439**	—
	(5,058)	844