MANAGEMENT'S REPORT TO UNITHOLDERS

The accompanying financial statements of Richards Packaging Income Fund (the "Fund") and Management's Discussion and Analysis included in this Annual Report have been prepared by management and approved by the Board of Trustees of the Fund. The financial statements were prepared in accordance with International Financial Reporting Standards and, where appropriate, reflect management's best estimates and judgments. Management is responsible for the accuracy, integrity and objectivity of the consolidated financial statements within reasonable limits of materiality and for the consistency of financial data included in the text of the Annual Report dated March 5, 2015.

Management, in discharging these responsibilities, maintains a system of internal controls designed to provide reasonable assurance that its assets are safeguarded, only valid and authorized transactions are executed and accurate, timely and comprehensive financial information is prepared.

The Fund's Audit Committee is comprised of trustees who are neither employees nor officers of the Fund. The Audit Committee meets with management as well as with the external auditors to satisfy itself that management is properly discharging its financial reporting responsibilities and to review the consolidated financial statements and the Auditors' Report. The external auditors have direct access to the Audit Committee of the Board of Trustees.

The financial statements have been independently audited by PricewaterhouseCoopers LLP on behalf of the Unitholders, in accordance with Canadian generally accepted auditing standards. The Auditor's Report outlines the nature of their audit and expresses their opinion on the financial statements of the Fund.

"Wayne McLeod"	*"Gerry Glynn"*	*"Enzio Di Gennaro"*
Chair Audit Committee	Chief Executive Officer Richards Packaging Inc.	Chief Financial Officer Richards Packaging Inc

Toronto, Ontario
March 5, 2015

March 5, 2015

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, 2014 and December 31, 2013 and the consolidated statements of net income and comprehensive income, changes in equity and cash flows for the years then ended, 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, 2014 and December 31, 2013 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

(Signed) "PricewaterhouseCoopers LLP"

Chartered Professional 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	2014	2013
Revenue	*4*	**212,285**	198,528
Cost of products sold	*5*	**182,807**	175,520
Administrative expenses	*5*	**9,642**	9,115
Foreign currency loss	*18*	**25**	70
Patent defense legal costs	*5*	**—**	1,290
Disputed duties	*20*	**—**	(436)
Profit from operations		**19,811**	12,969
Financial expenses	*14, 18*	**2,042**	2,079
Exchangeable shares			
Mark-to-market loss	*15, 18*	**3,078**	1,918
Distributions	*15*	**919**	839
Share of income - Vision	*17*	**(98)**	(251)
Income before income taxes		**13,870**	8,384
Income tax expense (income)			
Current taxes	*6*	**6,822**	4,995
Deferred taxes	*6*	**(974)**	(1,568)
		5,848	3,427
Net income for the year		**8,022**	4,957
Basic income per Unit	*15*	***$0.75***	*$0.46*
Diluted income per Unit	*15*	***$0.75***	*$0.46*
Other comprehensive income *(Subsequently recyclable to Net income)*			
Currency translation adjustment - Richards Packaging US	*2*	**5,943**	4,314
Comprehensive income for the year		**13,965**	9,271

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

Richards Packaging Income Fund

STATEMENTS OF FINANCIAL POSITION

As at December 31 *[Consolidated]*

Cdn$ thousands	Notes	2014	2013
Current Assets			
Cash and cash equivalents	*7*	**1,127**	2,649
Accounts receivable	*8*	**23,262**	20,938
Inventory	*9, 18*	**42,892**	37,235
Prepaid expenses and deposits	*10*	**2,211**	2,056
		69,492	62,878
Current Liabilities (*excluding debt*)			
Accounts payable and accruals	*11*	**(23,383)**	(20,674)
Income taxes payable	*6*	**(1,341)**	(738)
Distributions payable	*15*	**(865)**	(770)
Due to previous shareholder	*11*	**(914)**	(838)
		(26,503)	(23,020)
WORKING CAPITAL	*2*	**42,989**	39,858
Long-term Assets			
Plant and equipment	*4, 12*	**3,190**	3,421
Investment - Vision	*4, 17*	**628**	734
Intangible assets	*4, 13*	**10,688**	12,489
Goodwill	*4, 13*	**75,514**	72,507
		90,020	89,151
Long-term Liabilities (*excluding debt*)			
Deferred income taxes	*6*	**(4,435)**	(5,052)
NET OPERATING ASSETS	*2*	**128,574**	123,957
Debt			
Term debt	*14*	**32,428**	35,500
Exchangeable shares - current	*15, 18*	**13,593**	10,515
		46,021	46,015
Equity			
Unitholders' capital	*15*	**54,790**	64,144
Retained earnings		**24,465**	16,443
Accumulated other comprehensive income (loss)	*2*	**3,298**	(2,645)
		82,553	77,942
CAPITAL	*16, 18*	**128,574**	123,957
Commitments and contingencies	*19*		

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

Richards Packaging Income Fund

STATEMENTS OF CHANGES IN EQUITY

For the years ended December 31 *[Consolidated]*

Cdn$ thousands	**Notes**	**Unitholders' capital**	**Retained earnings**	**AOCI[a)]**	**Equity**
December 31, 2012		72,617	11,486	(6,959)	77,144
Share of comprehensive income			4,957	4,314	9,271
Distributions	*15*	(8,393)			(8,393)
Share conversion	*15*	346			346
Purchased for cancellation, net	*15*	(426)			(426)
December 31, 2013		64,144	16,443	(2,645)	77,942
Share of comprehensive income			**8,022**	**5,943**	**13,965**
Distributions	*15*	**(9,266)**			**(9,266)**
Purchased for cancellation, net	*15*	**(88)**			**(88)**
December 31, 2014		**54,790**	**24,465**	**3,298**	**82,553**

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

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

Richards Packaging Income Fund

STATEMENTS OF CASH FLOWS

For the years ended December 31 *[Consolidated]*

Cdn$ thousands	Notes	2014	2013
OPERATING ACTIVITIES			
Profit from operations		**19,811**	12,969
Add items not involving cash			
Plant and equipment depreciation	*12*	**1,358**	1,315
Intangible assets amortization	*13*	**2,628**	6,473
Income taxes payments	*6*	**(6,219)**	(4,192)
Dividends - Vision	*17*	**204**	189
Changes in non-cash working capital	*20*	**(3,122)**	3,656
Cash provided by operating activities		**14,660**	20,410
INVESTING ACTIVITIES			
Additions to plant and equipment	*12*	**(1,018)**	(1,093)
Additions to intangible assets	*13*	**—**	(31)
Cash used in investing activities		**(1,018)**	(1,124)
FINANCING ACTIVITIES			
Repayment of term debt	*14*	**(3,000)**	(6,000)
Financial expenses paid	*14*	**(2,155)**	(2,070)
Purchase of Fund units for cancellation	*15*	**(88)**	(426)
Distributions paid to Exchangeable Shareholders	*15*	**(908)**	(839)
Distributions paid to Unitholders	*15*	**(9,182)**	(8,393)
Cash used in financing activities		**(15,333)**	(17,728)
Net cash flow for the year		**(1,691)**	1,558
Cash and cash equivalents, beginning of year	*7*	**2,649**	893
Foreign exchange effect		**169**	198
Cash and cash equivalents, end of year	*7*	**1,127**	2,649

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 Standards ["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. 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. 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 income (loss). Upon any future sale of Richards Packaging US, the cumulative translation gain (loss) will be recycled to the Statement of Net Income to form part of the overall gain or loss on disposal.

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 allowances for doubtful accounts and inventory obsolescence and the testing for impairment of assets 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. NEW ACCOUNTING PRONOUNCEMENTS

There are no new IFRS that became effective after January 1, 2014 that would be expected to have a material impact on these financial statements.

The Fund will adopt IFRS 15, *Revenue from Contracts with Customers* for the annual period beginning on January 1, 2015. The standard requires us to evaluate the timing of revenue recognition for customers with custom moulds. The impact of the adoption of the standard is not expected to have a material impact on the financial statements.

December 31, 2014 and 2013 [Cdn$ 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	
	2014	**2013**	**2014**	**2013**
Revenue	**96,489**	93,989	**115,796**	104,539
Long-term assets	**37,204**	37,820	**52,816**	51,331

5. EXPENSES BY NATURE

	2014	**2013**
Salaries and wages	**17,202**	17,157
Benefits	**2,901**	2,915
Bonuses	**1,001**	846
Long-term incentive plan	**128**	100
Employee compensation	**21,232**	21,018
Inventory sold	**141,164**	132,403
Inventory provisions	**1,448**	1,214
Selling, distribution and other costs	**20,265**	18,170
Depreciation and amortization	**3,986**	7,788
Lease expenses	**4,354**	4,042
Cost of products sold and administrative expenses	**192,449**	184,635

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 $250 for three years starting in 2014 [2013 – $100]. Total salaries and benefits for executive officers was $1,680 [2013 – $1,519].

Patent defense legal costs relate to court proceedings associated with the prosecution of a patent, trademark and copyright infringement case completed on April 9, 2013. On October 15, 2013, the judge rendered his decision in favour of the defendants and as a result, Management accrued $500 in professional fees *[note 11]* associated with the judgment.

December 31, 2014 and 2013 [Cdn$ thousands]

6. INCOME TAXES

Significant components of deferred income taxes are as follows:

	2014	expense/ (income)	f/x [b)]	2013	expense/ (income)	f/x [b)]	2012
Deferred tax liabilities							
Plant and equipment	**660**	**(38)**	**36**	662	68	25	569
Customer relationships [a)]	**2,305**	**(692)**	**205**	2,792	(1,791)	153	4,430
Computer system software	**92**	**(54)**	**10**	136	(50)	9	177
Patents and trademarks [a)]	**1,619**	**(86)**	**113**	1,592	(82)	80	1,594
Other	**159**	**(31)**	**23**	167	35	20	112
Deferred tax assets							
Loss carry forward for tax	**—**	**—**	**—**	—	185	—	(185)
Working capital	**(400)**	**(73)**	**(30)**	(297)	67	(20)	(344)
	4,435	**(974)**	**357**	5,052	(1,568)	267	6,353

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

b) f/x = foreign exchange differences

Distributions of Richards Packaging US attract a 5% withholding tax. Income tax expense differs from the amount computed at statutory rates due to the various adjustments outlined below:

	2014	2013
Profit from operations	**19,811**	12,969
Financial expenses	**(2,042)**	(2,079)
Income subject to income taxes	**17,769**	10,890
Statutory tax rate	*26.5%*	*26.5%*
Income tax expense at statutory tax rate	**4,709**	2,886
Deferred income taxes		
Deferred income taxes pre loss carry forward	**974**	1,753
Loss carry forward for income tax utilized	**—**	(185)
	974	1,568
Current period adjustments		
Foreign tax differential	**(873)**	(839)
Foreign rate differential	**1,573**	1,060
Disputed duties	**—**	(72)
Withholding tax	**342**	410
Other items	**97**	(18)
Current income taxes	**6,822**	4,995

December 31, 2014 and 2013 [Cdn$ thousands]

7. CASH AND CASH EQUIVALENTS

	2014	**2013**
Cash at bank	**2,376**	2,627
Demand deposits	—	1,000
Issued and outstanding cheques	**(1,249)**	(978)
	1,127	2,649

Cash at bank represents cash clearing accounts at various branches which are netted on an overall basis. At December 31, 2014, cash at bank was net of $1,630 of credit balances [2013 – $222]. Demand deposits are highly liquid investments with a term to maturity of three months or less at the date of purchase.

8. ACCOUNTS RECEIVABLE

	2014	**2013**
Current	**16,315**	13,631
Up to 60 days past due	**6,415**	6,296
61 – 90 days past due	**237**	306
Over 90 days past due	**526**	791
Trade receivables	**23,493**	21,024
Allowance for doubtful accounts[a)]	**(635)**	(297)
Supplier rebates	**404**	211
	23,262	20,938

a) Management recorded new provisions of $332 [2013 – $11] and wrote off $8 [2013 – $98]. The remaining non-cash change in the accounts receivable reflects foreign exchange differences.

9. INVENTORY

	2014	**2013**
Goods purchased for resale	**38,616**	34,253
Goods in transit	**5,889**	3,984
Manufacturing raw materials	**853**	714
Manufactured finished goods	**1,792**	1,627
Reserve for slow moving inventory[a)]	**(4,258)**	(3,343)
	42,892	37,235

a) Management recorded a provision of $1,448 [2013 – $1,214] and recognized write-offs of $533 [2013 – $526]. The remaining non-cash change in inventory reflects foreign exchange differences.

December 31, 2014 and 2013 [Cdn$ thousands]

10. PREPAID EXPENSES AND DEPOSITS

	2014	2013
Deposits for commitment to purchase goods	**554**	699
Rent and deposits	**1,150**	828
Insurance	**32**	31
Bank interest	**85**	86
Property taxes	**8**	5
Other deposits	**382**	407
	2,211	2,056

11. ACCOUNTS PAYABLE AND ACCRUALS

	2014	2013
Trade payables	**18,247**	16,359
Rebates	**348**	594
Staffing expenses[a)]	**1,738**	1,201
Professional fees	**379**	725
Leases	**724**	429
Sales tax	**510**	331
Other payables	**1,437**	1,035
	23,383	20,674

a) Management bonuses included in staffing expenses 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.

December 31, 2014 and 2013 [Cdn$ thousands]

12. PLANT AND EQUIPMENT

	Manufacturing Equipment	Moulds	Warehouse & office	Computer equipment	Leaseholds	Total
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
Additions	233	553	245	62	—	1,093
Depreciation	(245)	(673)	(105)	(105)	(187)	(1,315)
Foreign exchange differences	(7)	0	1	42	43	79
December 31, 2013						
Carrying value	5,364	7,045	1,430	1,480	1,345	16,664
Accumulated Depreciation	(4,360)	(5,631)	(918)	(1,255)	(1,079)	(13,243)
Net book value	1,004	1,414	512	225	266	3,421
Additions	**125**	**619**	**196**	**69**	**9**	**1,018**
Depreciation	**(373)**	**(728)**	**(93)**	**(104)**	**(60)**	**(1,358)**
Foreign exchange differences	**5**	**70**	**0**	**33**	**1**	**109**
December 31, 2014						
Carrying value	**5,494**	**7,734**	**1,626**	**1,582**	**1,355**	**17,791**
Accumulated Depreciation	**(4,733)**	**(6,359)**	**(1,011)**	**(1,359)**	**(1,139)**	**(14,601)**
Net book value	**761**	**1,375**	**615**	**223**	**216**	**3,190**

13. INTANGIBLE ASSETS AND GOODWILL

Intangible assets and Goodwill are not deductible for tax purposes. Goodwill has been assessed by calculating the recoverable amount determined based on the value in use. Five 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 13%. For periods beyond the budget period, cash flows were extrapolated using long term average growth rates of 1.4%. Reasonably possible changes in key assumptions would not cause the recoverable amount to fall below the carrying value.

December 31, 2014 and 2013 [Cdn$ thousands]

	Customer relationships	Patents	Trade-marks	Computer software	Intangible assets	Goodwill
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
Additions	—	—	—	31	31	—
Amortization	(6,041)	(323)	—	(109)	(6,473)	—
Foreign exchange differences	433	129	76	8	646	2,140
December 31, 2013						
Carrying value	63,511	3,830	3,388	2,382	73,111	72,507
Accumulated amortization	(55,906)	(2,720)	—	(1,996)	(60,622)	—
Net book value	7,605	1,110	3,388	386	12,489	72,507
Additions	**—**	**—**	**—**	**—**	**—**	**—**
Amortization	**(2,200)**	**(323)**	**—**	**(105)**	**(2,628)**	**—**
Foreign exchange differences	**545**	**182**	**107**	**(7)**	**827**	**3,007**
December 31, 2014						
Carrying value	**64,437**	**4,012**	**3,495**	**2,375**	**74,319**	**75,514**
Accumulated amortization	**(58,487)**	**(3,043)**	**—**	**(2,101)**	**(63,631)**	**—**
Net book value	**5,950**	**969**	**3,495**	**274**	**10,688**	**75,514**

14. REVOLVING AND TERM DEBT

Richards Packaging has available both revolving and term debt credit facilities, which were refinanced on June 30, 2014 to extend the maturity by 2 1/3rd years to September 30, 2017 at a cost of $85 of which $72 remains to be amortized to over the term of the debt. The revolving credit facility availability of $5,000 [2013 – $5,000] bears interest at the prime rate plus a premium of 0.30% to 0.80%. The effective interest rate at December 31, 2014 was 3.6% [2013 – 3.6%]. There was no amount drawn on the facility at December 31, 2014 or 2013. The term facility of $32,500 [2013 – $35,500] bears interest at the bankers' acceptance borrowing rate plus a premium of 1.30% to 1.80%. The effective interest rate at December 31, 2014 was 2.8% [2013 – 2.9%]. Voluntary repayments of term debt of $3,000 [2013 – $6,000] were made during the year ended December 31, 2014.

December 31, 2014 and 2013 [Cdn$ thousands]

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

	2014	**2013**
Interest expense	**1,031**	1,182
Credit card fees	**874**	758
Bank refinancing fees	**13**	—
Credit facility charges	**124**	139
	2,042	2,079

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, 2012	10,715,970	10,735,721	1,059,043	11,775,013	11,794,764
Share conversion	34,608		(34,608)	—	
Units purchased	(47,800)			(47,800)	
December 31, 2013	10,702,778	10,676,491	1,024,435	11,727,213	11,733,828
Units purchased	**(6,900)**			**(6,900)**	
December 31, 2014	**10,695,878**	**10,700,972**	**1,024,435**	**11,720,313**	**11,725,407**

Exchangeable shares mark-to-market loss reflects a unit price increase during the year ended December 31, 2014 of $2.77 [2013 - $1.98] to $13.29 per Unit. The impact on income per Unit of the mark-to-market loss and distributions to exchangeable shareholders is anti-dilutive which reverts back to basic income per Unit [2013 – anti-dilutive].

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, 2014 to purchase up to 200,000 Units prior to March 12, 2015. During the year, 6,900 Units were purchased [2013 – 47,800 Units] at an average price of $12.74/Unit [2013 – $8.92].

Contributed surplus

The components of Unitholders' capital include unit capital and contributed surplus. The Fund's purchase of 6,900 Units [2013 – 47,800] resulted in a reduction of $47 [2013 - $101] to $703 [2013 – $750].

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 February 28, 2017 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.

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 in 2014 began at $701 and ended at $786, or 7.35¢ per Unit, reflecting a 0.8¢/month increase and unit buyback activity by the Fund. The Board of Trustees approved a reduction in the capital account for distributions made for 2014.

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 14th 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, 2014 was 1.30 [2013 – 1.56]. In addition, the fixed charge coverage ratio covenant was greater than 2.0 times and the ratio was 3.28 [2013 – 3.38] and the minimum net worth covenant was $70,000 and the net worth was $96,092 [2013 – $88,455].

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, 2014 and 2013 [Cdn$ thousands]

17. RELATED PARTY TRANSACTIONS AND INVESTMENT

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

	2014	**2013**
Leases of facilities from entities related to certain officers	**709**	639
Product purchases from Vision	**6,898**	6,849

Richards Canada owns a 50% interest in a joint venture, Vision. The information below reflects the amounts presented in the financial statements of Vision:

	2014	**2013**		**2014**	**2013**
Statement of financial position					
Assets			**Liabilities**		
Current assets	**1,370**	1,233	Current liabilities	**447**	467
Plant and equipment	**329**	323			
Total assets	**1,699**	1,556	**Net assets**	**1,252**	1,089
Statement of net income					
Revenue				**6,898**	6,849
Expenses				**6,702**	6,347
Net income				**196**	502

The decrease of $106 in Investment – Vision represents share of net income of $98 less dividends of $204.

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 net income *[note 15]*.

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, 2014, 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, 2014 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. The inventory provision is assessed on a specific item-by-item basis considering a number of factors including aging, recent sales and market demand. 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, 2014 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 $240 [2013 – $283].

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 loss of $25 has been recorded for the year ended December 31, 2014 [2013 –$70] relating to cross-border transactions. A 1.0% movement in foreign currency rates would have impacted net income by $100 [2013 – $100].

December 31, 2014 and 2013 [Cdn$ 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	Third parties	Total
2015	**752**	**3,748**	**4,500**
2016	**656**	**3,086**	**3,742**
2017	**637**	**2,387**	**3,024**
2018	**656**	**2,035**	**2,691**
2019	**676**	**1,646**	**2,322**
Thereafter	**680**	**3,857**	**4,537**

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.

20. ADDITIONAL CASH FLOW INFORMATION

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

	2014	2013
Accounts receivable	**(1,385)**	(600)
Inventory	**(3,570)**	4,636
Prepaid expenses and deposits	**(51)**	340
Accounts payable and accruals	**1,884**	(281)
Disputed duties	—	(439)
	(3,122)	3,656

For the year ended December 31, 2014, the foreign exchange translation gain excluded from the above was $2,362 [2013 – $1,587].

In 2012, the Mexican customs authorities assessed additional duties of $143 and penalties and interest of $296 for product misclassified on goods imported into Mexico. In 2013, Management successfully challenged the assessment to have the classification overturned.