

## **AUDITORS' REPORT**

To the Unitholders of  
**Richards Packaging Income Fund**

We have audited the consolidated balance sheet of Richards Packaging Income Fund as at December 31, 2004 and the consolidated statements of income and deficit and cash flows for the period from April 7, 2004 to December 31, 2004. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2004 and the results of its operations and its cash flows for the period from April 7, 2004 to December 31, 2004 in accordance with Canadian generally accepted accounting principles.

**Toronto, Ontario**  
March 28, 2005

**(Signed) Ernst & Young LLP**  
Chartered Accountants

## Richards Packaging Income Fund

### CONSOLIDATED BALANCE SHEET

[expressed in thousands of dollars]

As at December 31

	2004
	\$
<b>ASSETS [note 7]</b>	
<b>Current</b>	
Cash and cash equivalents	3,507
Accounts receivable	20,872
Inventory	22,253
Prepaid expenses	1,492
Income taxes recoverable	1,245
<b>Total current assets</b>	<b>49,369</b>
Capital assets, net [note 4]	6,747
Deferred financing fees, net	1,474
Intangible assets, net [note 5]	47,373
Future income taxes [note 11]	3,337
Goodwill [notes 1, 3 and 6]	55,393
	<b>163,693</b>
<b>LIABILITIES AND UNITHOLDERS' EQUITY</b>	
<b>Current</b>	
Accounts payable and accrued liabilities	21,817
Income taxes payable	276
Distributions payable to unitholders [note 10]	876
Dividends payable to exchangeable shareholders [note 10]	45
Due to officers [note 13]	684
Short-term debt and current portion of long-term debt [note 7]	3,653
<b>Total current liabilities</b>	<b>27,351</b>
Long-term debt [note 7]	22,020
Future income taxes [note 11]	18,309
<b>Total liabilities</b>	<b>67,680</b>
Commitments and contingencies [note 8]	
<b>Unitholders' equity</b>	
Units and exchangeable share capital [note 9]	101,019
Deficit, end of period	(2,316)
Cumulative translation adjustments [note 12]	(2,690)
<b>Total unitholders' equity</b>	<b>96,013</b>
	<b>163,693</b>

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

“Donald Wright”  
Chairman

“Wayne McLeod”  
Chair – audit committee

“Gerry Glynn”  
CEO

## Richards Packaging Income Fund

### CONSOLIDATED STATEMENT OF INCOME AND DEFICIT

[expressed in thousands of dollars except for unit/share and per unit amounts]

For the period from April 7 to December 31

	2004
	\$
<b>Revenue</b>	<b>113,318</b>
Cost of products sold	96,922
	<b>16,396</b>
Foreign currency gains from operations <i>[note 15]</i>	449
General and administrative expenses	<b>(5,871)</b>
	<b>10,974</b>
Income before under noted items and income taxes	<b>10,974</b>
Amortization	
Capital assets <i>[note 4]</i>	1,506
Intangible assets <i>[note 5]</i>	5,127
Deferred financing fees	494
Interest expense <i>[note 7]</i>	1,154
Unrealized gains on financial instruments <i>[note 15]</i>	
Interest rate swap contracts	(237)
Foreign exchange forward agreement	(151)
Foreign exchange on translation of long-term debt	<b>(1,802)</b>
	<b>4,883</b>
Income before income taxes	<b>4,883</b>
Income tax provision (recovery) <i>[note 11]</i>	
Current	286
Future	<b>(1,088)</b>
	<b>(802)</b>
<b>Net income for the period</b>	<b>5,685</b>
Deficit, beginning of period	—
Distributions declared to unitholders	<b>(7,649)</b>
Dividends declared to exchangeable shareholders	<b>(352)</b>
	<b>(2,316)</b>
<b>Deficit, end of period</b>	<b>(2,316)</b>
<b>Basic and diluted income per Unit and share</b>	<b>\$0.530</b>
<b>Weighted average number of Units and shares outstanding</b>	<b>10,719,810</b>

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

## Richards Packaging Income Fund

### CONSOLIDATED STATEMENT OF CASH FLOWS

[expressed in thousands of dollars]

For the period from April 7 to December 31

	2004
	\$
<hr/>	
<b>OPERATING ACTIVITIES</b>	
Net income for the period	5,685
Add (deduct) items not involving cash	
Amortization	7,127
Future income taxes	(1,088)
Unrealized gains on financial instruments <i>[note 15]</i>	(388)
Unrealized foreign exchange gain on long-term debt	(1,802)
	<hr/> 9,534
Net change in non-cash operating elements of working capital <i>[note 16]</i>	<hr/> 2,347
<b>Cash provided by operating activities</b>	<hr/> <b>11,881</b>
<hr/>	
<b>INVESTING ACTIVITIES</b>	
Additions to capital assets	1,608
Acquisition of Richards Packaging Inc., net of cash acquired of \$112 <i>[note 1]</i>	69,185
Acquisitions during the period, net of cash acquired of \$163 <i>[note 3]</i>	6,352
	<hr/> 77,145
<b>Cash used in investing activities</b>	<hr/> <b>77,145</b>
<hr/>	
<b>FINANCING ACTIVITIES</b>	
Decrease in bank indebtedness	(664)
Proceeds from short and long-term debt, net	3,563
Initial public offering of Fund Units, net of expenses	75,921
Repayment of due to officers	(244)
Dividends paid to exchangeable shareholders	(307)
Distributions paid to unitholders	(6,773)
	<hr/> 71,496
<b>Cash provided by financing activities</b>	<hr/> <b>71,496</b>
<hr/>	
Foreign currency translation loss	2,725
	<hr/> 2,725
<b>Net increase in cash and cash equivalents</b>	<hr/> <b>3,507</b>
Cash and cash equivalents, beginning of period	<hr/> —
<b>Cash and cash equivalents, end of period</b>	<hr/> <b>3,507</b>

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

## Richards Packaging Income Fund

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

[expressed in thousands except for unit and per unit amounts]

December 31, 2004

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#### 1. FORMATION OF THE FUND AND ACQUISITION

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 remained inactive until April 7, 2004 when the Fund completed an initial public offering of 8,569,913 trust units of the Fund (the "Units") at a price of \$10 per unit, realizing gross proceeds of \$85,699 to facilitate the acquisition of all of Richards Packaging Inc. shares and an indenture note through a series of transactions.

The Fund indirectly purchased all of the shares of Richards Packaging Inc. for \$90,713, including acquisition costs of \$417. The consideration consisted of \$68,880 in cash, the issuance of 1,686,414 Units at a price of \$10 per unit and the issuance of 455,185 Richards Packaging Holdings Inc.'s exchangeable shares at a price of \$10 per share, exchangeable into an equal number of Units. This acquisition has been accounted for using the purchase method and accordingly, the results of operations from April 7, 2004 have been included in these financial statements and no comparative information is provided. The consideration paid has been allocated to the assets acquired based on their fair values and the excess of the purchase price over the value of the net identifiable assets acquired has been recorded as goodwill. All acquired intangible assets, other than goodwill, are subject to amortization. The allocation of the purchase price is as follows:

	\$
Current assets	42,715
Capital assets	6,445
Deferred financing fees	1,977
Intangible assets – customer orders	1,500
Intangible assets – customer relationships and contracts	47,700
<b>Total assets acquired</b>	<b>100,337</b>
Current liabilities	20,583
Long-term debt	23,958
Future income tax liability	17,676
<b>Total liabilities assumed</b>	<b>62,217</b>
Fair value of net assets acquired	38,120
Goodwill	52,593
<b>Purchase price</b>	<b>90,713</b>

## **Richards Packaging Income Fund**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

[expressed in thousands except for unit and per unit amounts]

December 31, 2004

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

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. These statements cover the period from the Fund's initial public offering on April 7, 2004 through to December 31, 2004.

### **Principles of consolidation**

The consolidated financial statements include the accounts of the Fund, Richards Packaging Holdings Inc. ["Holdings"], Richards Packaging Inc. ["Richards Can"], and Richards Packaging, Inc. ["Richards US"], all wholly-owned directly or indirectly by the Fund, and 50% of Vision Plastics Inc., one of its 3 plastic containers manufacturing plants, which is jointly controlled.

### **Revenue recognition**

Revenue is recognized when persuasive evidence of an arrangement exists, significant risks and benefits of ownership are transferred, the sales price to the customer is fixed or is determinable and collection of the resulting receivable is reasonably assured. The significant risks and benefits of ownership are normally transferred in accordance with the shipping terms agreed to with the customer. The Fund estimates and records an allowance for product returns and discounts for each reporting period.

### **Cash and cash equivalents**

Cash and cash equivalents include cash on hand, demand deposits and highly liquid investments with a term to maturity of three months or less at the date of purchase.

### **Inventory**

Raw materials are valued at the lower of cost and replacement value and products available for sale are valued at the lower of cost and net realizable value. Cost is determined on a first-in, first-out basis.

### **Capital assets**

Capital assets are initially recorded at cost. Repairs and maintenance are charged to operations as incurred. Amortization is computed using the straight-line or diminishing balance method over the remaining estimated useful lives of the capital assets as outlined below:

Manufacturing equipment	straight-line over 7 years
Moulds	straight-line over 4 years
Computer equipment	30% diminishing balance
Computer software and systems implementation	straight-line over 5 years
Warehouse and office equipment	20% diminishing balance
Leasehold improvements	straight-line over the term of the lease

## **Richards Packaging Income Fund**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

[expressed in thousands except for unit and per unit amounts]

December 31, 2004

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#### **Deferred financing**

The costs of obtaining long-term debt are deferred and amortized on a straight-line basis over the term of the debt to which those costs relate.

#### **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 orders are amortized as the orders are being shipped. Customer relationships and contracts are amortized on a straight-line basis over 10 years.

#### **Goodwill**

At the acquisition date, goodwill is recorded at the excess of the purchase price of an acquired business over the fair value of the net assets acquired.

The Fund performs its impairment test on its acquired goodwill annually, or more frequently if circumstances indicate a possible impairment. Management reviews the carrying amount of goodwill for possible impairment by conducting a two-step test. In the first step, fair value of the reporting unit, as determined by discounted cash flows, is compared to its carrying value. If the fair value is less than the carrying value, a second step will be conducted whereby the fair value of goodwill is determined on the same basis as a business combination. If the fair value of goodwill is less than its carrying value, goodwill will then be written down to its estimated fair value.

#### **Long-lived assets**

Long-lived assets comprise capital assets and intangible assets subject to amortization. Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. For purposes of evaluating the recoverability of long-lived assets, the recoverability test is performed using undiscounted future net cash flows of the asset. The amount of the impairment is measured as the difference between the carrying value and the fair value of the asset and recognized by way of an additional current period amortization charge.

#### **Income taxes**

Income tax obligations relating to distributions of the Fund are the obligations of the unitholders, and accordingly, no provision for income taxes has been made in respect of the Fund itself. A provision has been recognized for the Fund's subsidiary companies, which are subject to tax.

The Fund's subsidiary companies follow the liability method to account for income taxes whereby future tax assets and liabilities are determined based on temporary differences between the carrying amounts and the tax basis of assets and liabilities. Future tax assets and liabilities are measured using the substantively enacted tax rates that will be in effect when these differences are expected to reverse. Future tax assets, if any, are recognized only to the extent that, in the opinion of management, it is more likely than not that the assets will be realized.

## **Richards Packaging Income Fund**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

[expressed in thousands except for unit and per unit amounts]

December 31, 2004

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#### **Long-term incentive plan**

Management of the Fund is eligible to participate in the Fund's long-term incentive plan. For a period of 3 years beginning April 7, 2004 the Fund will purchase in the open market Units to be awarded to the extent that distributions to the unitholders exceed the annual target of \$1.025 per Unit. Units so awarded will be expensed in the period that they are granted. No Units were awarded during the period as distributions did not exceed this level for the period.

#### **Foreign currency translation**

The unit of measure for the Fund and related entities, except for Richards US, is the Canadian dollar and accounts in foreign currency have been translated into Canadian dollars. Monetary items are recorded at exchange rates in effect at the consolidated balance sheet date and non-monetary items are recorded at the exchange rates in effect on the date of the transaction. Revenue and expenses are recorded at average exchange rates prevailing during the period, except for amortization, which is translated at rates prevailing when the related assets were acquired. Gains and losses arising from foreign currency translation are included in income.

Richards US is treated as a self-sustaining foreign operation. All assets and liabilities are translated at exchange rates in effect at the consolidated balance sheet date. Revenue and expenses, including amortization, are translated at average exchange rates prevailing during the period. Any resulting gains or losses are included in unitholders' equity and described as a cumulative translation adjustment.

#### **Derivative financial instruments**

Derivative financial instruments are utilized to reduce foreign currency and interest rate risk on the Fund's debt. The Fund does not enter into financial instruments for trading or speculative purposes.

The Fund has not elected to designate its interest rate swap contracts and foreign currency standard rate agreements as hedges for accounting purposes and, accordingly, will record the fair value of these derivatives using a mark-to-market valuation basis, with changes during the period recognized in net income.

#### **Use of estimates**

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions which affect the reported amounts of assets and liabilities, and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the amounts of revenue and expenses recognized for the period reported. By their nature, these estimates are subject to measurement uncertainty and are reviewed periodically and adjustments, if necessary, are made in the period in which they are identified. Actual results may differ from these estimates.



## Richards Packaging Income Fund

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

[expressed in thousands except for unit and per unit amounts]

December 31, 2004

### 3. ACQUISITIONS

Effective November 30, 2004 the Fund indirectly acquired all the shares of Kay Containers Ltd. ["Kay"], Calgary Plastics Container Supply Ltd. ["Calgary"] and M.A. Foss Distributors Ltd. ["Foss"] for consideration of \$7,636 including acquisition costs of \$110. The consideration was satisfied by cash payments of \$6,405, which was partially financed by the credit facility [note 7], and the issuance of 69,500 Holdings exchangeable shares at \$10 per share and obligation of \$426 to the former shareholders associated with various representations and warranties in the purchase and sale agreements. These acquisitions have been accounted for by the purchase method. Consequently, the results of operations and cash flows are included in the consolidated financial statements from the effective date of acquisition. The allocation of the purchase price is as follows:

	Foss \$	Kay \$	Calgary \$	Total \$
Current assets	483	1,681	118	2,282
Capital assets	11	221	36	268
Customer relationships and contracts	1,800	1,500	—	3,300
<b>Total assets acquired</b>	<b>2,294</b>	<b>3,402</b>	<b>154</b>	<b>5,850</b>
Current liabilities	224	1,060	97	1,381
Future income tax liability	624	561	—	1,185
<b>Total liabilities assumed</b>	<b>848</b>	<b>1,621</b>	<b>97</b>	<b>2,566</b>
Fair value of net assets acquired	1,446	1,781	57	3,284
Goodwill [note 6]	1,968	1,332	1,052	4,352
<b>Purchase Price</b>	<b>3,414</b>	<b>3,113</b>	<b>1,109</b>	<b>7,636</b>

These entities were amalgamated with the Fund's subsidiaries effective December 1, 2004.

### 4. CAPITAL ASSETS

	Cost \$	Accumulated amortization \$	Net book value \$
Manufacturing equipment	3,310	730	2,580
Moulds	2,180	556	1,624
Computer equipment	464	82	382
Computer software and system implementation	1,424	13	1,411
Warehouse and office equipment	758	107	651
Leasehold improvements	117	18	99
	<b>8,253</b>	<b>1,506</b>	<b>6,747</b>

## Richards Packaging Income Fund

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

[expressed in thousands except for unit and per unit amounts]

December 31, 2004

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Cost represents the fair value of the capital assets acquired in the initial acquisition of Richards Packaging Inc. [note 1], from acquisitions during the period [note 3] and the cost of capital asset additions. Accordingly, accumulated amortization only consists of amortization recorded during the period from April 7 to December 31, 2004.

#### 5. INTANGIBLE ASSETS

	Cost \$	Accumulated amortization \$	Net book value \$
Customer orders	1,500	1,500	—
Customer relationships and contracts	51,000	3,627	47,373
	52,500	5,127	47,373

Cost represents the fair value of intangible assets acquired with the purchase of Richards Packaging Inc. [note 1] and the acquisitions during the year [note 3]. As at December 31, 2004 there have been no significant changes in the methods used to determine the fair market value of the intangible assets, therefore no impairment charge was necessary during the period then ended.

#### 6. GOODWILL

Changes in the carrying amounts of goodwill are as follows:

	\$
Goodwill acquired on the initial acquisition as at April 7, 2004 [note 1]	52,593
Goodwill acquired on acquisitions during the period [note 3]	4,352
Foreign currency translation	(1,552)
Balance December 31, 2004	55,393

The currency translation loss is associated with the goodwill related to Richards US. The goodwill is not deductible for tax purposes.

#### 7. SHORT AND LONG-TERM DEBT

Immediately prior to the initial public offering by the Fund, Richards Packaging Inc. obtained new credit facilities. The fees associated with this refinancing will be deferred and amortized over the 3-year term of these facilities. Credit facilities available to the Fund are outlined below:

## Richards Packaging Income Fund

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

[expressed in thousands except for unit and per unit amounts]

December 31, 2004

Debt facility	Due date	Interest rate	Outstanding balance \$	Total facilities \$
Revolving credit	June 6, 2005	See [i] below	—	5,000
Acquisition credit	June 6, 2005	See [ii] below	3,602	6,319
Term loans	See [iii] below	See [iii] below	51	51
Short-term debt and current portion of long-term debt			<b>3,653</b>	
Term loan	April 6, 2007	See [iv] below	21,906	21,906
Term loan	See [iii] below	See [iii] below	114	114
Long-term debt			<b>22,020</b>	

[i] The revolving credit facility consists of a Canadian operating line of credit of \$5,000 bearing interest at the prime rate plus a premium of 1.0% to 1.75% depending on the Fund's total EBITDA<sup>1</sup> and a standby fee of 0.4% to 0.55% depending on the Fund's total debt to EBITDA ratio.

[ii] The acquisition credit facility consists of a line of credit of U.S.\$5,250 bearing interest at Libor plus a premium of 2.0% to 2.75% depending on the Fund's total debt to EBITDA and a standby fee of 0.4% to 0.55% depending on the Fund's total debt to EBITDA ratio. The effective interest rate at December 31, 2004 was 4.9%.

[iii] The outstanding balance consists of two term loans of \$150 and \$15 bearing interest at the prime rate plus 0.75% with monthly principal repayments of \$3 and \$5 respectively. The term loan of \$150 matures August 5, 2008 and the term loan of \$15 matures March 23, 2005. The effective interest rate at December 31, 2004 was 4.7%.

[iv] The term loan consists of a U.S.\$18,200 loan bearing interest at Libor plus a premium of 2.0% to 2.75% depending on the Fund's total debt to EBITDA. The interest rate is subject to a fixed rate swap with an effective interest rate for the period from April 7, to December 31, 2004 of 4.7%, which is approximately 0.7% above the variable rate during that period. The effective interest rate at December 31, 2004 was 4.7%.

The acquisition credit and the term loan, except as noted in [iii] above, are payable in full on the due dates outlined in the above table.

Interest expense for the period April 7, 2004 to December 31, 2004 is comprised as follows: term loan and acquisition credit interest of \$863, credit card commission charges of \$206 and credit facility charges of \$85.

Richard Can has provided a first charge over all of its assets as collateral for the revolving credit facility, the acquisition credit facility and the term loans.

## Richards Packaging Income Fund

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

[expressed in thousands except for unit and per unit amounts]

December 31, 2004

#### 8. COMMITMENTS AND CONTINGENCIES

The minimum rental payments, exclusive of occupancy charges, required under the leases for the Fund's premises for the years ending December 31, are as follows:

	Related parties	Other	Total
	\$	\$	\$
2005	424	2,108	2,532
2006	33	2,128	2,161
2007	33	1,947	1,980
2008	33	1,703	1,736
2009	25	1,581	1,606
Thereafter	—	1,144	1,144

In the ordinary course of business, the Fund is involved in litigation and other claims. It is management's opinion that the ultimate outcome of litigation will not have a material adverse effect on the financial position or operating results of the Fund.

#### 9. UNITS AND EXCHANGEABLE SHARE CAPITAL

The capital contributions by unitholders of the Fund and exchangeable shareholders of Holdings are included in Units and exchangeable share capital on the consolidated balance sheet as follows:

	\$
Units issued on initial public offering, 8,569,913 units	85,699
Units issued for partial acquisition of Richards Packaging Inc., 1,686,414 units	16,864
Exchangeable shares issued, 524,685 shares	5,247
Units issuance costs, net of capital contributions and future income taxes	(6,791)
	<b>101,019</b>

No new Units were issued after April 7, 2004, the date of the initial public offering. 455,185 exchangeable shares were issued on the initial public offering and 69,500 exchangeable shares were issued during the period at \$10 per share as partial consideration for a business acquisition [note 3].

#### 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

## Richards Packaging Income Fund

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

[expressed in thousands except for unit and per unit amounts]

December 31, 2004

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market prices at the time, subject to a maximum of \$50 in cash redemptions by the Fund in any particular month. This limitation may be waived at the discretion of the Trustees of the Fund. Redemptions in excess of this amount, assuming no waiving of the limitation, shall be paid by way of a distribution in specie of a pro rata number of Holdings' securities held by the Fund.

#### Exchangeable shares

The exchangeable shares were issued by Holdings to officers of the Fund in exchange for shares of the Fund. These exchangeable shares are retractable by Holdings on April 7, 2009, or prior to that date in limited circumstances, and are redeemable by the shareholders at any time. A retraction or redemption of exchangeable shares will be paid in Units on a one-for-one basis. Exchangeable shares carry the right to vote at any meeting that unitholders are entitled to vote on the same basis.

#### Long-term incentive plan

Key senior management of Richards Packaging Inc. are eligible to participate in the Fund's long-term incentive plan (the "LTIP"). The purpose of the LTIP is to attract, retain and motivate key personnel who contribute significantly to per Unit cash flow. Units awarded under the plan will vest over a 3 year period. To the extent that annual distributions exceed \$1.025 per year the following amounts will be contributed by the Fund to the plan:

<b>Amount of excess distributions per unit</b>	<b>Payout of excess distributions % of excess</b>
< \$0.05 per unit	10%
\$0.05 to \$0.10 per unit	15%
>\$0.10 per unit	20%

It is the policy of the Fund to accrue awards under the LTIP during the period that they are granted. Distributions for the nine months ending December 31, 2004 did not exceed the threshold and therefore no contributions were made to the plan.

#### 10. CUMULATIVE DISTRIBUTIONS

Distributions are made monthly to unitholders of record on the last business day of each month and paid on the 15<sup>th</sup> day of the following month. Dividends paid to the exchangeable shareholders are not subordinated to distributions to unitholders and are declared on the same basis. Distributions and dividends declared during the period April 7 to April 30 were \$642 or \$0.0624 per Unit and \$28 or \$0.0624 per share respectively. The monthly distributions and dividends for the months of May through December have remained constant at \$876 or \$0.0854 per Unit and \$39 or \$0.0854 per share respectively with the exception of dividends for December 2004 which was higher by \$6 on the new exchangeable shares issued associated with the acquisitions [note 3].

## Richards Packaging Income Fund

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

[expressed in thousands except for unit and per unit amounts]

December 31, 2004

#### 11. INCOME TAXES

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

	\$
Income before income taxes	4,883
Distributions to unitholders, not subject to tax in the Fund	(7,080)
	(2,197)
Statutory tax rate	36.1%
Income tax recovery at statutory tax rate	(793)
<b>Adjustments to income taxes</b>	
Temporary differences	
Unrealized gains on financial instruments	(454)
Equity placement fees	(263)
Penalty on discharge of debt	(142)
Intangible assets	1,944
Loss for income tax not utilized	278
Amortization	(275)
Current period adjustments	
Foreign exchange gain on translation of long-term-debt	(326)
Withholding tax on dividends and fees from US operations	348
Other	(31)
<b>Current income taxes</b>	286
<b>Future income taxes recovery</b>	(1,088)

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

	\$
<b>Future tax assets</b>	
Equity placement fees	2,509
Loan termination fees	550
Loss for income tax not utilized	278
	3,337
<b>Future tax liabilities</b>	
Capital assets	462
Unrealized gains on financial instruments	445
Customer relationships and contracts	17,402
	18,309

## Richards Packaging Income Fund

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

[expressed in thousands except for unit and per unit amounts]

December 31, 2004

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In addition to the equity placement fees accounted for above, the Fund has approximately \$1,700 of fees available to be deducted over the next four years.

The Fund structure involves inter-company debt, generating interest expense, which serves to reduce earnings and therefore income tax payable in the United States. Richards U.S. claimed interest deductions with respect to the U.S. Notes ("Notes") in computing its income for U.S. federal income tax purposes. The Fund received tax opinions on certain matters relating to this inter-company debt. The consolidated financial statements of the Fund reflect these opinions, specifically that the Notes should be respected as debt; and the interest on the Notes, of \$1,149 for the period April 7 to December 31, 2004, should be deductible by Richards U.S. for United States federal income tax purposes, subject to any limitations under the earnings stripping rules.

There can be no assurance that the Internal Revenue Services ("IRS") will not challenge the tax filing position taken by Richards U.S., in which case some or all of the otherwise deductible interest on the Notes would be treated as non-deductible distributions. Although management believes it is unlikely that the IRS would be successful, if the Notes are not respected as debt, and the full amount of interest is not deductible for U.S. federal income tax purposes, management estimates that the additional taxes in 2004 would be approximately \$460 or \$0.043, per unit, on a diluted basis.

#### 12. CUMULATIVE TRANSLATION ADJUSTMENT

The cumulative translation adjustment represents the effect of exchange rate variations on the translation of the Fund's net investment in Richards US, a self-sustaining foreign operation. The unrealized translation loss of \$2,690 during the period ended December 31, 2004 resulted from the strengthening of the Canadian dollar against the U.S. dollar.

#### 13. RELATED PARTY TRANSACTIONS

The Company entered into the following related party transactions during the period ended December 31, 2004, which were measured at the exchange amount:

	\$
<hr/>	
The Company leases four of its facilities from certain officers and other entities under their common control	<b>318</b>
The Company purchases product from Vision Plastics Inc. <i>[note 14]</i>	<b>7,020</b>
<hr/>	

The amount due to certain officers of \$684 as at December 31, 2004 is non-interest bearing and has no fixed terms of repayment.

#### 14. JOINT VENTURE

The Fund owns a 50% interest in a joint venture, Vision Plastics Inc. Financial information relating to the joint venture before inter-company eliminations is as follows:

## Richards Packaging Income Fund

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

[expressed in thousands except for unit and per unit amounts]

December 31, 2004

	\$
<b>Balance sheet</b>	
Current assets	1,622
Capital assets	1,856
<b>Total assets</b>	<b>3,478</b>
<b>Liabilities</b>	
Current liabilities	621
Long-term debt	279
Future income taxes	102
<b>Total liabilities</b>	<b>1,002</b>
<b>Statement of income</b>	
Revenue	7,020
Total expenses	7,000
<b>Net income</b>	<b>20</b>
<b>Additional information</b>	
Cash provided by operating activities	172
Cash used in investing activities	177
Cash used in financing activities	146

Since all of the sales of Vision Plastics Inc. are to Richards Can, the above table reflects 100% of the balance and transactions of Vision Plastics Inc.

## 15. FINANCIAL INSTRUMENTS

### Fair value

Cash and cash equivalents, accounts receivable, income taxes recoverable (payable), accounts payable and accrued liabilities, distributions payable to unitholders and dividends payable to exchangeable shareholders are all short-term in nature and as such, their carrying values approximate fair values.

A reasonable estimate of fair value could not be made for the amounts due to officers, as there are no fixed terms of repayment.

The fair value of short and long-term debt approximates the carrying values as this debt bears interest at rates comparable to current market rates.

The fair value of the interest rate swap contract represents an unrealized gain of approximately \$237.



## Richards Packaging Income Fund

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

[expressed in thousands except for unit and per unit amounts]

December 31, 2004

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#### Credit risk

Concentration of credit risk with respect to trade accounts receivable is limited due to the large number of customers and their geographical dispersion. During the period from April 7, 2004 to December 31, 2004 no customer represented 10% or more of the Fund's sales or accounts receivable balance. In the event of non-payment by the customers, management believes that the allowance for doubtful accounts is adequate to cover any likely losses.

#### Interest rate risk

The Fund is exposed to interest rate risk in the event of fluctuations in LIBOR and the bank's prime rate as the interest rates on the revolving credit facility and term loans are dependent on the bank's prime rate. The Fund has entered into interest rate swap contracts with approved creditworthy counterparties to manage current and anticipated exposure to interest rate risk through April 1, 2006 on a notional principal amount equal to the long-term loan. The Fund has not accounted for its interest rate swap contracts as hedges in accordance with the provisions of AcG-13 "Hedging Relationships". As a result, fluctuations in the market value of the interest rate swap contracts are recorded in the consolidated financial statements from period to period.

#### Foreign exchange risk

The Fund is exposed to Cdn/US\$ currency fluctuations on cross-border transactions and on translation of the net investment in, and earnings of, Richards US. A foreign currency standard rate agreement has been put in place at Cdn/US\$0.73 to sell US\$100 per month through September 30, 2005. The fair value of the foreign currency standard rate agreement as at December 31, 2004 represents an unrealized gain of \$151.

A foreign exchange gain of \$449 from operations has been recorded in the period.

### 16. CONSOLIDATED STATEMENT OF CASH FLOWS

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

	\$
Accounts receivable	1,575
Inventory	(2,013)
Prepaid expenses	21
Accounts payable and accrued liabilities	2,467
Income taxes	297
	<hr/>
	2,347

Interest paid and income taxes recovered for the period ended December 31, 2004 amounts to \$1,057 and \$206, respectively.

## Richards Packaging Income Fund

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

[expressed in thousands except for unit and per unit amounts]

December 31, 2004

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#### Non-cash investing and financing activities

On April 7, 2004, the Fund acquired all the outstanding shares of Richards Packaging Inc. with \$16,864 and \$4,552 of the purchase price being settled by the issuance of 1,686,414 Units and 455,185 exchangeable shares, respectively, valued at \$10 per Unit and \$10 per share *[note 1]*.

During the period, the Fund acquired all the outstanding shares of Calgary Plastics Container Supply Ltd. with \$695 of the purchase price being settled by the issuance of 69,500 exchangeable shares valued at \$10 per share *[note 3]*.

#### 17. SEGMENTED INFORMATION

The Fund's operations consist of one reporting segment, principally in the distribution of plastic and glass containers. The geographic distribution of revenue and assets are as follows:

	Canada \$	United States \$
Revenue	69,879	43,439
Capital assets and goodwill	41,533	20,607

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