Richards Packaging Income Fund

MANAGEMENT'S DISCUSSION AND ANALYSIS

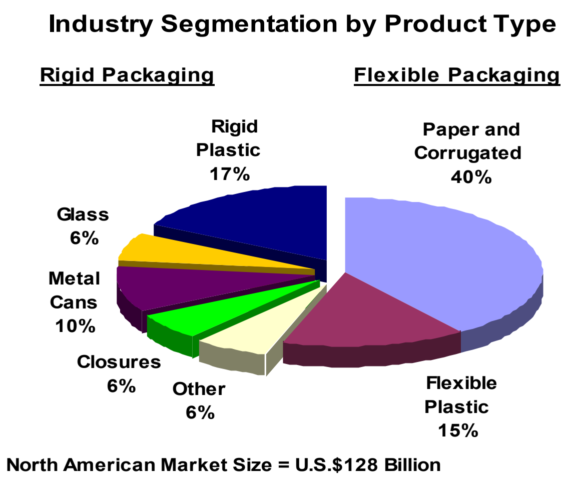
(expressed in thousands, except where otherwise indicated and per Unit amount)

March 23, 2006

This management's discussion and analysis of Richards Packaging Income Fund ("MD&A") for the 2005 year should be read in conjunction with the attached audited consolidated financial statements for the year ended December 31, 2005 ("2005 year"), the quarterly reports for the periods ended March 31, June 30 and September 30, 2005, and the Annual Information Form dated March 23, 2006. Results are reported in Canadian dollars and have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") on a consistent basis with the annual financial statements.

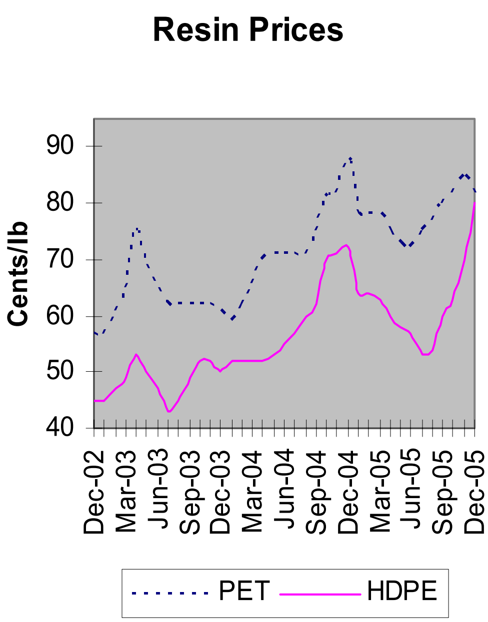
North American Packaging Industry

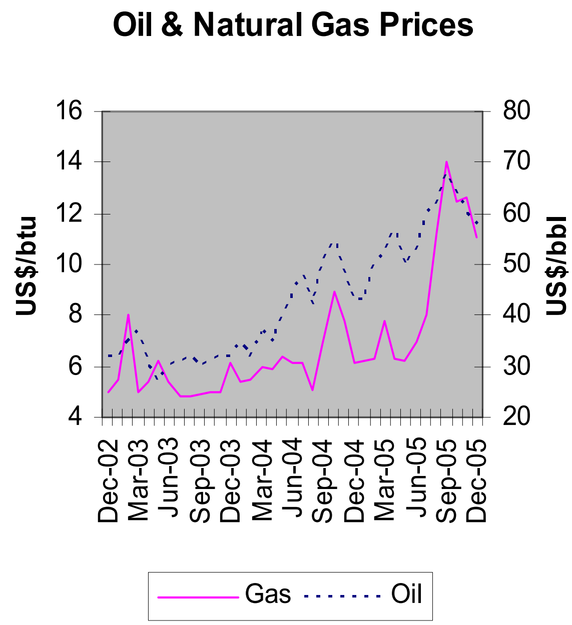
Packaging is pervasive, as almost all products are delivered in some form of packaging. The properties of this packaging fulfils not only the practical, transportability, protection functions and shelf life, but also serves to differentiate products and communicate branding messages such as quality, safety and consumer satisfaction. The latest ergonomically complex packaging components' design reflects significant investment in market research and product development. To meet the needs of this changing marketplace, the packaging industry has segmented into different product types outlined in the adjacent chart. Growth in 2005 was 3% for plastics, 1% for glass and flat for metal.



As large product marketers have consolidated, packaging companies have embarked on a parallel industry consolidation strategy to meet their needs. Concentration is high in the glass, metal and paper segments with two to five companies controlling approximately 90% of their market, and medium in the rigid plastic, flexible plastic and closure segments with 10 to 15 companies controlling 50% to 60% of their market. In 2005 there were 383 acquisitions in the global packaging industry, with an average value of U.S.$25 million in line with the activity level of the previous few years. For each of the last two years the top 20 companies have spent $1.6 billion on capital at the cautious rate of 5% of revenue. At the same time excess capacity is continually being addressed with the Chapter 11 filing of Anchor Glass and numerous plastic plant closures in 2005. Overall sales growth for these companies averaged 8% for the last two years.

As we enter 2006, fuel costs and resin pricing remain the biggest wild cards for the industry. Energy prices rose rapidly during 2005, affecting glass furnace economics, resin costs and freight costs. Supply shocks followed hurricanes Rita and Katrina, knocking out about 1/3 of North American resin production capacity, reversing the summer pricing relief during the fourth quarter. Financing structures in place at most packaging companies are similar to that of an income trust, with significant use of 7% to 13% debt and free cash flow as defined within the industry at 5%, which ensures that a disciplined approach to passing cost increases through will remain in place. Clear evidence is that for the top 20 companies, their EBITDA as defined within the industry as a percent of sales has remained at a healthy 14% overall for 2005.





Description of the Business and Fund Profile

Within the North American Packaging Industry a $3 billion distributor-based market for rigid packaging exists to serve regional small- to medium-sized premium product marketers. Approximately 60 distributors provide marketing and package design expertise, source multiple packaging components from around the world, aggregate orders ensuring access to large manufacturers and provide inventory and logistics support to deliver a complete packaging solution. Concentration in this segment is low with the top five companies controlling 36% of their market. Richards Packaging Inc. ("Richards Packaging") is the largest packaging distributor in Canada and the third largest in North America. Other distributors consist mainly of local or regional family-owned companies who specialize to meet the unique needs of their customers.

Richards Packaging serves a wide customer base that is comprised of over 7,000 regional food, beverage, cosmetic, specialty chemical, pharmaceutical and other companies. The primary source of revenue is from the distribution of over 5,000 different types of packaging containers and related components sourced from over 600 suppliers and its three dedicated manufacturing facilities. In addition to providing its customers with a wide range of packaging solutions, Richards Packaging provides design and development services and comprehensive logistics management through 13 sales offices and one agency location.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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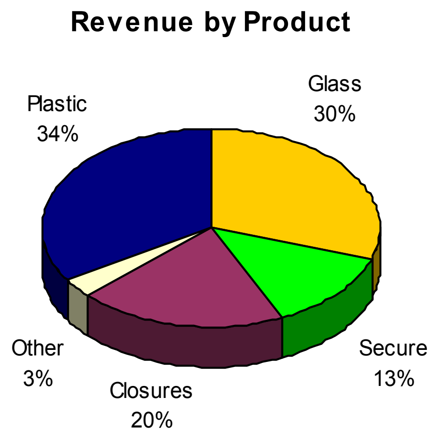
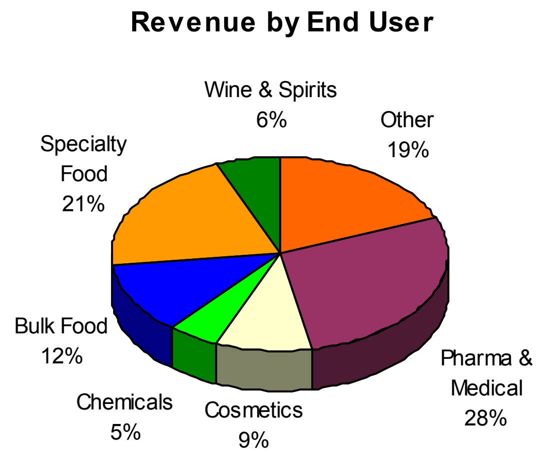
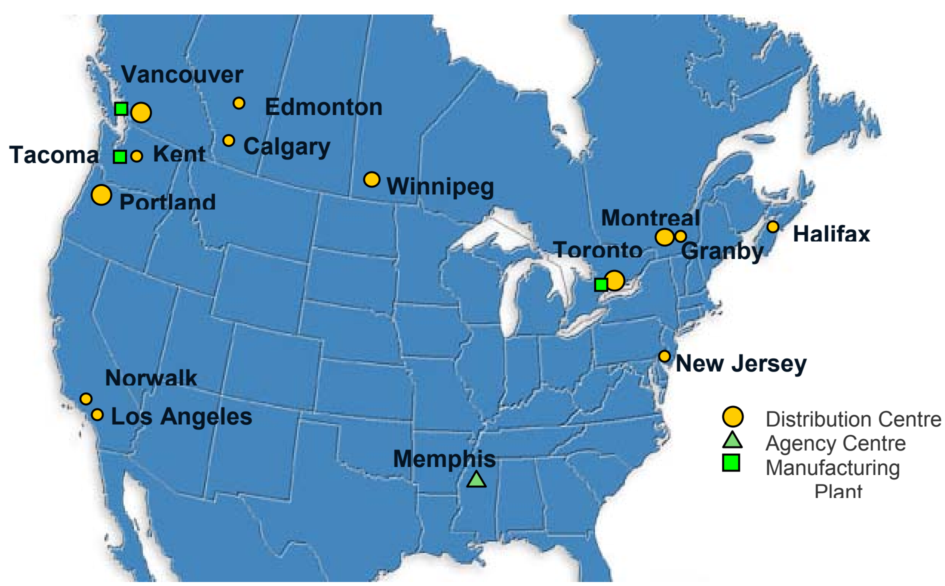
March 23, 2006





Richards Packaging Locations



Richards Packaging Income Fund

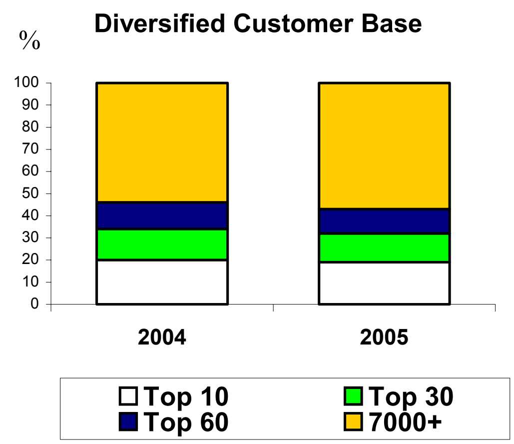
MANAGEMENT'S DISCUSSION AND ANALYSIS

(expressed in thousands, except where otherwise indicated and per Unit amount)

March 23, 2006

The cornerstones of Richards Packaging strategy include:

- Focus on a diversified customer base that is dominated by small regional premium product marketers,
- Ability to provide a complete one-stop source of packaging solutions,
- Being one of the largest distributors of European and Asian glass for the specialty food, wine and spirits markets,
- Being the largest supplier of packaging to the prescription drug and pharmaceutical markets in Canada, and
- Being the only major distributor with dedicated in-house manufacturing capability.



During the first quarter of 2005 management completed a strategic repositioning of Richards Packaging in the marketplace to significantly reduce the concentration of large customers and focus on customers with the highest value for the unique product offering and services we provide.

Richards Packaging Income Fund (the "Fund") is a limited purpose, open-ended trust created on February 26, 2004 to invest in packaging distribution businesses throughout North America. The Fund commenced operations on April 7, 2004 when the Fund completed an initial public offering of 8,569,913 trust Units of the Fund ("Units") at a price of $10 per Unit and indirectly through Richards Packaging Holdings Inc. ("Holdings") purchased 96% of the securities of Richards Packaging.

Highlights and Selected Financial Information

Highlights of the overall Fund performance for the 2005 year include:

- Completed a strategic acquisition in July which is expected to contribute $1.5 million to EBITDA[1] on an annualized basis. Refinanced the revolving and acquisition credit facilities coterminously.
- Organic growth of 1.7% partially offsetting the impacts of foreign exchange.
- Increased EBITDA by $0.7 million. Achieved our target 10% rate in the fourth quarter by successfully integrating the four acquisitions and achieving related synergies.
- Utilized $1.0 million of the funds generated by our inventory reduction program during the fourth quarter to repay part of the $3.2 million revolving loan drawn, leaving $2.2 million outstanding.
- Increased monthly distributions from $0.0854 to $0.0935 per Unit to yield a 12.5% annualized return (@$9/Unit).
- Increased distributable cash flow[2] to $1.203 per Unit. Given the cumulative distributions declared of $1.122 per Unit, the implied payout ratio[3] was 93%.
- Benefited from a foreign currency fixed rate agreement at a rate of Cdn./U.S.$0.73 through to September 2005 for substantially all of the exposure inherent in distributable cash from Richards US replaced by interest on additional draw on acquisition credit line.

Richards Packaging Income Fund

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March 23, 2006

The MD&A covers the three months ended December 31, 2005 and the 12 months ended December 31, 2005 (generally referred to in this MD&A as the "fourth quarter" and the "2005 year", respectively). Selective comparative information for the first and second quarters in 2004 is provided from the financial records of Richards Packaging as the Fund completed an initial public offering on April 7, 2004. The following table sets out selected consolidated financial information of the Fund:

	Qtr. 1		**Qtr. 2**		**Qtr. 3**		**Qtr.4**		**12 months**		**Apr. 7 to Dec. 31**
	2005	**2004**	**2005**	**2004**	**2005**	**2004**	**2005[c)]**	**2004**	**2005[a)]**	**2004[b)]**	**2004[a)]**
	$	$	$	$	$	$	$	$	$	$	$
Income Statement Data:											
Revenue	**39,818**	**38,941**	**43,056**	**40,060**	**41,723**	**39,803**	**40,683**	**35,598**	**165,280**	**154,402**	**113,318**
EBITDA[1]	**3,030**	**3,402**	**3,866**	**3,696**	**3,809**	**3,989**	**4,520**	**3,451**	**15,225**	**14,538**	**10,974**
Diluted per Unit	*$0.281*	*$0.317*	*$0.359*	*$0.345*	*$0.353*	*$0.372*	*$0.419*	*$0.321*	*$1.412*	*$1.355*	*$1.024*
Net income	**1,106**		**1,340**		**2,518**	**2,970**	**1,907**	**2,191**	**6,871**		**5,441**
Diluted per Unit	*$0.108*		*$0.131*		*$0.246*	*$0.290*	*$0.185*	*$0.214*	*$0.670*		*$0.530*
Balance Sheet Data:											
Total assets	**166,019**		**168,715**	**162,920**	**169,658**	**157,900**			**165,850**		**163,404**
Bank debt	**30,237**		**32,070**	**24,599**	**37,920**	**23,194**			**37,052**		**25,673**
Cash Flow Statement Data:											
Distributions	**3,024**		**3,024**	**2,500**	**3,024**	**2,745**	**3,024**	**2,756**	**12,096**		**8,001**
Diluted per Unit	*$0.281*		*$0.280*	*$0.233*	*$0.280*	*$0.256*	*$0.281*	*$0.257*	*$1.122*		*$0.746*
Payout ratio[3]	***102%***		***94%***	***85%***	***94%***	***87%***	***85%***	***102%***	***93%***		***91%***

a) Amounts are derived from the audited consolidated financial statements.
b) Amounts are derived from unaudited historical financial statements of Richards Packaging.
c) EBITDA includes $514 for reversal of annual accruals (see Review of Operations).

The distribution policy is set by the Trustees after giving careful consideration to the projected cash flows of the Fund, the long-term sustainability of the distribution level and the balance of risks and future prospects of the Fund. This policy is not set based upon net income due to various non-cash accounting charges that depress net income such as amortization, unrealized gains or losses on financial instruments and future income taxes. Although the Fund's payout ratio exceeded distributable cash flow during the fourth quarter in 2004 and the first quarter in 2005, the 91% ratio for the following three quarters was within the Fund's target payout ratio of 90%.

Review of Operations

Richards Packaging's operations are approximately two-thirds in Canada ("Richards Canada") and one-third in the United States ("Richards US"). Approximately 50% of Richards Packaging's sales are concentrated in Toronto, Montreal and Vancouver, and 25% in Los Angeles and Portland. Comparatives for revenue and EBITDA[1] have been provided but not other expenses for the first two quarters, as the capital structure of the Fund was significantly different than that of Richards Packaging in the prior periods, and therefore would not provide meaningful comparisons.

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We caution the reader against projecting future Fund performance off the fourth quarter results, as $514 was added to gross profit due to a change in estimates associated with 2005 annual accruals.

	Qtr. 1		Qtr. 2		Qtr. 3		Qtr. 4		12 months		Apr. 7 to Dec. 31
	2005	2004	2005	2004	2005	2004	2005[d)]	2004	2005[a)]	2004[b)]	2004[a)]
	$	$	$	$	$	$	$	$	$	$	$
Revenue	**39,818**	**38,941**	**43,056**	**40,060**	**41,723**	**39,803**	**40,683**	**35,598**	**165,280**	**154,402**	**113,318**
Cost	**34,512**	**33,559**	**36,871**	**34,399**	**35,608**	**33,935**	**33,969**	**30,494**	**140,960**	**132,387**	**96,922**
Gross profit	**5,306**	**5,382**	**6,185**	**5,661**	**6,115**	**5,868**	**6,714**	**5,104**	**24,320**	**22,015**	**16,396**
	13.3%	*13.8%*	*14.4%*	*14.1%*	*14.7%*	*14.7%*	*16.5%*	*14.3%*	*14.7%*	*14.3%*	*14.5%*
Expenses	**2,299**	**1,980**	**2,344**	**1,965**	**2,352**	**1,879**	**2,258**	**2,102**	**9,253**	**7,926**	**5,871**
LTIP[c)]	**—**	**—**	**47**	**—**	**23**	**—**	**26**	**—**	**96**	**—**	**—**
FX gain[c)]	**(23)**	**—**	**(72)**	**—**	**(69)**	**—**	**(90)**	**(449)**	**(254)**	**(449)**	**(449)**
EBITDA[1]	**3,030**	**3,402**	**3,866**	**3,696**	**3,809**	**3,989**	**4,520**	**3,451**	**15,225**	**14,538**	**10,974**
Amortization	**2,003**		**2,022**		**2,113**	**1,820**	**2,262**	**2,017**	**8,400**		**7,127**
Interest	**429**		**558**		**652**	**383**	**673**	**370**	**2,312**		**1,154**
Unrealized loss	**80**		**394**		**(1,877)**	**(1,393)**	**226**	**(1,445)**	**(1,177)**		**(2,190)**
Income tax	**(645)**		**(517)**		**274**	**77**	**(645)**	**211**	**(1,533)**		**(802)**
NCI[c)]	**57**		**69**		**129**	**132**	**97**	**107**	**352**		**244**
Net Income	**1,106**		**1,340**		**2,518**	**2,970**	**1,907**	**2,191**	**6,871**		**5,441**

a) *Amounts are derived from the audited consolidated financial statements.*
b) *Amounts are derived from unaudited historical financial statements of Richards Packaging.*
c) LTIP=*long-term incentive plan*, FX=*foreign exchange*, NCI=*non-controlling interests*.
d) *Gross profit includes $514 for reversal of annual accruals.*

Revenue increased by $5.1 million for the fourth quarter, or 14.3%, and by $10.9 million for the 2005 year, or 7.1%, from the same periods in 2004, respectively. During the fourth quarter, the increase was mainly attributable to the acquisitions ($3.7 million), organic growth of 2.0% ($0.7 million) and the MIS disruption impact in 2004 ($0.9 million) which was partially offset by translation of the Richards US with the Canadian dollar strengthening by U.S./Cdn.$0.033 to U.S./Cdn.$0.852 ($0.2 million). For the 2005 year, substantially all of the revenue increase was due to the acquisitions ($12.0 million). Organic growth at 1.7% ($2.3 million) and the impact of the one-time MIS disruption in 2004 were more than offset by the sales mix transition program to a higher concentration of strategic higher margin products ($0.7 million) and translation of Richards US with the Canadian dollar strengthening by U.S./Cdn.$0.056 to U.S./Cdn.$0.826 ($3.6 million).

The foreign translation impact for the fourth quarter was relatively low and should increase, based upon the current exchange rates, beginning in the first quarter of 2006 by $0.8 million for revenue and $0.1 million for gross profit per quarter, similar to the levels during the first three quarters of the 2005 year[4]. On July 29, 2005 the Fund indirectly purchased Dispill Inc. ("Dispill"), the largest provider of secure packaging for prescription drugs for the Quebec nursing home market. Management chose not to exercise its option to purchase Omaha Containers Ltd., our agent with operations in Kansas and Des Moines. The cancellation of their agency agreement during the fourth quarter had no significant effect on the fourth quarter or the 2005 year. Management estimates the combined annualized impact of these transactions will be revenue neutral, with an increase in earnings of $1.5 million[4].

In a highly inflationary resin environment Richards Packaging experiences a slight rise in the churn rate and lower net organic growth, however, it is our view that inflation will subside and revenue growth will return to the historic rate of between 3% to 5% per annum[4]. The volatility in the price of resins did not have a material impact on margins as a result of management's practice of immediately passing through increases and decreases to customers.

Cost of products sold increased by $3.5 million for the fourth quarter, or 11.4%, and by $8.6 million for the 2005 year, or 6.5%, from the same periods in 2004, respectively. Synergies achieved from the integration of the acquisitions resulted in lower selling and distribution costs, resulting in gross margin increases of 0.9% to 15.2% during the fourth quarter and 0.4% for the 2005 year, from the same periods in 2004, respectively.

The fourth quarter gross margins increased by an additional $0.5 million or 1.2% due to the reversal of annual estimates booked in the first three quarters. Based on the final 2005 year results it was determined that these accruals were excessive and accordingly they were reversed to income. These estimates depressed each of the first three quarters by approximately $0.2 million.

General and administrative expenses increased $0.2 million for the fourth quarter and by $1.3 million for the 2005 year, over the same periods in 2004, respectively. Approximately half of the increase for the 2005 year was due to acquisitions and the other half due to public company costs, such as directors' fees, professional fees, insurance, filing fees and additional staff. The fourth quarter reflected these costs with the exception of the costs associated with the Dispill operation which were offset by synergies.

EBITDA[1] increased by $0.6 million, net of the $0.5 million accrual reversal, for the fourth quarter and $0.7 million for the 2005 year, from the same periods in 2004. As a percent of sales, EBITDA was at 9.9% for the fourth quarter and 9.2% for the 2005 year. Changes were due to the factors outlined above and during the fourth quarter Richards Packaging realized a $0.3 million lower foreign exchange gain from the internal hedging program on cross-boarder transactions.

Other expenses of the Fund included amortization and interest, which were higher due to the addition of the intangible assets and financing associated with the acquisition, unrealized foreign exchange gains on translation of long-term debt, which reflects the higher borrowing in U.S. dollars and a favourable movement in the exchange rate and unrealized losses on financial instruments. The only cash items in other expenses represent the interest paid by Richards Packaging.

Amortization of $2.3 million for the fourth quarter was mainly comprised of $1.4 million for intangible assets, which represents a charge of $1.3 million per quarter for customer relationships and contracts and $0.1 million for patents and trademarks. The remaining amortization amounts consisted of deferred financing fees of $0.2 million that will continue for the remainder of the three-year term of the debt facilities and capital asset amortization of $0.7 million per quarter, which is approximately four times Richards Packaging's maintenance capital expenditure spending requirement.

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The term and acquisition loans outstanding at December 31, 2005 total U.S.$29.8 million, which gave rise to the unrealized foreign currency translation gain of $1.3 million for the 2005 year. On December 31, 2004 the exchange rate was U.S./Cdn.$0.831, while during the period it dropped as low as U.S./Cdn.$0.796 and closed on December 31, 2005 at U.S./Cdn.$0.858. Richards Packaging has borrowed mainly in U.S. dollars to match the U.S. dollar interest obligations with the cash it receives from Richards US. It is management's intention to continue to borrow funds denominated in U.S. dollars for the foreseeable future[4].

Current income taxes for the 2005 year were negligible as they reflect the tax deductions inherent in distributions to unitholders. The $0.5 million of current income tax leakage is predominately for Richards US. Net future tax assets available to shield income taxes are $2.7 million, which include $2.3 million of initial public offering and financing fees and a loss carry forward of $1.3 million offset by $0.6 million of unrealized gains on financial instruments and $0.3 million of capital assets.

Net income for the fourth quarter was $1.9 million, and for the 2005 year was $6.9 million, which represented $0.186 and $0.670 per Unit on a diluted basis, respectively. A total of 10,256,327 Units and 524,685 Holdings shares, exchangeable into Units on a one-for-one basis, were outstanding throughout the period. On November 30, 2004 Holdings issued 69,500 exchangeable shares at $10 per share as partial consideration for one of the three acquisitions.

Distributable Cash Flow

	Qtr. 1	Qtr. 2		Qtr. 3		Qtr. 4		12 months	Apr. 7 to Dec. 31
	2005	2005	2004[b)]	2005	2004	2005[c)]	2004	2005[a)]	2004[a)]
	$	$	$	$	$	$	$	$	$
Cash provided by operating activities	**(3,267)**	**3,182**	**800**	**1,446**	**3,978**	**4,282**	**7,103**	**5,643**	**11,881**
Working capital changes	**6,127**	**173**	**2,602**	**1,535**	**(414)**	**(1,047)**	**(4,535)**	**6,788**	**(2,347)**
Non-cash charges	**170**	**511**	**132**	**828**	**425**	**1,285**	**883**	**2,794**	**1,440**
EBITDA[1]	**3,030**	**3,866**	**3,534**	**3,809**	**3,989**	**4,520**	**3,451**	**15,225**	**10,974**
Interest	**429**	**558**	**401**	**652**	**382**	**673**	**371**	**2,312**	**1,154**
Cash income taxes	**(510)**	**(138)**	**32**	**(193)**	**210**	**129**	**169**	**(712)**	**411**
Mtnce. capital exp.	**107**	**225**	**143**	**126**	**211**	**141**	**194**	**599**	**548**
Loan payments	**25**	**11**	**7**	**10**	**14**	**10**	**25**	**56**	**46**
Distributable cash flow[2]	**2,979**	**3,210**	**2,951**	**3,214**	**3,172**	**3,567**	**2,692**	**12,970**	**8,815**
Diluted per Unit	***$0.276***	***$0.298***	***$0.276***	***$0.298***	***$0.296***	***$0.331***	***$0.250***	***$1.203***	***$0.822***
Distributions	**3,024**	**3,024**	**2,500**	**3,024**	**2,745**	**3,024**	**2,756**	**12,096**	**8,001**
Diluted per Unit	***$0.281***	***$0.280***	***$0.233***	***$0.280***	***$0.256***	***$0.281***	***$0.257***	***$1.122***	***$0.746***
Payout ratio[3]	***102%***	***94%***	***85%***	***94%***	***87%***	***85%***	***102%***	***93%***	***91%***
Units outstanding on a diluted basis	**10,781**	**10,781**	**10,711**	**10,781**	**10,711**	**10,781**	**10,735**	**10,781**	**10,720**

a) Amounts are derived from the audited consolidated financial statements.
b) Reflects the period from April 7 to June 30.
c) Working capital changes includes $514 for reversal of annual accruals (see Review of Operations).

The distributable cash flow[2] definition excludes changes in working capital as they are necessary to drive organic growth and are expected to be financed by a $7.0 million revolving facility available to Richards Packaging ($2.2 million drawn). Likewise capital expenditures for expansion of the business are excluded as they are intended to generate future growth in distributable cash and are expected to be financed primarily by a U.S.$12.0 million acquisition facility (U.S.$11.6 million drawn).

Distributable cash flow[2] for the fourth quarter at $3.1 million, net of the $0.5 million accrual reversal, was at the same level as the previous two quarters. The increase over the same period in 2004 was primarily attributable to the $0.6 million improvement in EBITDA[1] described earlier in this report. Maintenance capital expenditures were slightly below target, however, management continues to believe that the annual target of $0.75 million is appropriate[4].

The distribution for the 2005 year at $1.122 per Unit represents an annual yield of 12.5% on a $9 price per Unit and a payout ratio[3] of 93%. We believe that a long-term payout ratio of approximately 90% is appropriate and provides a reasonable cushion to enhance the stability and predictability of future distributions. Based upon the 2005 year, 80.4% of the distributions will represent interest on the subordinated note held by the Fund and 19.6% will be treated as a return of capital to the unitholders.

Liquidity and Financing

Initial public offering, use of proceeds

The net proceeds of the initial public offering of the Fund were $75.9 million, after deducting $10.2 million in associated fees. These proceeds were mainly expended to acquire 96% of the shares of Richards Packaging for $68.8 million in cash, together with 1,686,414 in Units. The other 4% represents 455,185 common shares of Holdings.

The surplus cash of $6.7 million was deployed to discharge $3.1 million of recorded liabilities, to pre-fund the discharge of $2.3 million in pending commitments and to provide $1.3 million in working capital for organic growth. Larger liabilities and commitments pre-funded included $0.8 million to complete a new management information system ("MIS") for Richards Canada, $0.5 million to discharge amounts due to certain officers and $1.0 million to cover the cheques outstanding on April 7, 2004. These pending payments have been fully discharged as of December 31, 2005.

Cash flows from operating activities

Cash flow from operating activities for the fourth quarter was $4.3 million, and for the 2005 year was $5.6 million. The additional working capital of $1.0 million in the fourth quarter is seasonal in nature and will reverse in January. Many of our customers use the month of December to shut down facilities for annual maintenance, so we follow their lead and lower both inventory and receivables during the holiday season.

The financial structure of the Fund allows for maximum distributions of cash flow from operations to the unitholders and shareholders as outlined above in the distributable cash discussion. Actual distributions and dividends paid during the 2005 year were $12.1 million with an additional $1.0 million declared for December, which was paid on January 13th.

Cash income taxes

The cash income tax recovery for the 2005 year was $0.7 million, with $1.1 million representing refunds from the April 7, 2004 income tax returns being offset by $0.4 million of income tax payments for Richards U.S. (2004 - $0.4 million). The loss carry forwards in Richards Canada ensure that income tax leakage will be limited to Richards US for the foreseeable future[4].

Capital expenditures

Capital expenditures for the 2005 year were $1.8 million; $0.6 million was for maintenance capital and $1.2 million for expansion capital. Expenditures classified as maintenance capital are mainly comprised of new moulds or refurbishment of moulds for replacement packaging driven by customer marketing programs. Expansion capital was deployed for a new machine in the Tacoma plant and moulds for new programs.

Financing activities and instruments

Richards Packaging's credit facilities include a U.S.$18.2 million term loan with repayment on April 6, 2007, up to $7.0 million in revolving debt to fund working capital expansion and up to U.S.$12.0 million for expansion capital and/or acquisition financing. During the 2005 year certain bank indebtedness was repaid and a repayment of the loans due to officers was made totaling $0.6 million. During the first quarter of 2005, $3.2 million of the revolving credit facility was drawn to fund various contractual obligations outlined below and $1.0 million was repaid in the fourth quarter.

The working capital and acquisition facilities are annual in nature and will be up for renewal on June 5, 2006. Management is confident that these facilities will be renewed with the current lending syndicate. In addition, management is currently underway with negotiations to refinance its U.S.$18.2 million term loan and is confident that it will be renewed as well. Combined with cash flow from operations, management believes that adequate financing will be available for the foreseeable future[4].

Approximately 23% of distributable cash flow[2] for the 2005 year was provided by Richards US. The interest on the U.S. dollar debt described above negates the inherent foreign currency exchange risk. This position hedged substantially all of the distributable cash flow from Richards US for the 2005 year.

Richards Packaging 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, acquisition facility and term loans are dependent on the bank's prime rate. Richards Packaging 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 fair value of the interest rate swap contract represents an unrealized gain of approximately $222 as at December 31, 2005.

(expressed in thousands, except where otherwise indicated and per Unit amount)

Commitments and contractual obligations

	Total $	< 1 year $	1-3 years $	4-5 years $	Thereafter $
Bank debt	**37,052**	**15,765**	**21,287**	**—**	**—**
Patents and trademarks	**700**	**300**	**400**	**—**	**—**
Annual bonus plans	**350**	**350**	**—**	**—**	**—**
Operating leases	**11,342**	**3,012**	**5,311**	**2,033**	**986**
	49,444	**19,427**	**26,998**	**2,033**	**986**

A potential competitor has filed an action against Richards Packaging to establish that a product they desire to launch does not infringe our Dispill patent and trademark. The patent and trademark expenditures above reflect management's estimate of ongoing legal costs to defend this action. If their action succeeds, there could be an adverse effect on profitability in the future.

Outlook[4]

Management believes that the performance of Richards Packaging is on track to meet ongoing requirements for working capital, capital expenditures and to sustain monthly distributions to unitholders at the current levels for the remainder of the year. The inventory reduction program should allow for the repayment of the remaining $2.2 million of revolving debt. Our long-term objective is to modestly increase distributions in line with annual sales growth of 3% to 5%.

The Fund realized a $2.5 million EBITDA[1] improvement from the November 2004 acquisitions and the July 2005 acquisition but experienced a $1.8 million reduction in the various baseline operations. Management has pinpointed the trouble areas and will focus its attention on achieving operational improvements during 2006 before renewing our acquisition strategy.

The cash income tax recovery for the 2005 year will not repeat and cash income tax expense should return to the 2004 level.

Maintenance capital will continue to be funded by cash flow from operations and is expected to grow in line with sales. Expansion capital is expected to be in the order of $2 to $3 million cumulatively over the next few years to support the launch of new marketing programs by our customers, although no major expenditures are pending. These expenditures will be funded by debt.

Risks and Uncertainties

Business risks

An investment in Units involves risks inherent in the ordinary course of business of Richards Packaging including: the sustainability of customer and supplier relationships, the financial stability of customers, competition from other packaging companies, inventory obsolescence, supply and transportation disruptions, resin price volatility and exchange rate, interest rate fluctuations and reliance on key personnel. For a detailed description of these and other risks and uncertainties facing investors in the Fund please refer to the 2005 Annual Information Form dated March 23, 2006.

Growth through acquisition

Richards Packaging's business strategy contemplates growth through strategic acquisitions similar in nature to those completed during the past two years. However, there can be no assurance that other attractive candidates will be found or that they would be integrated successfully. Furthermore, the access to capital markets is critical to continuing this strategy and that depends heavily on prevailing sentiment in the financial markets.

Leverage and restrictive covenants

Richards Packaging's ability to make scheduled payments of interest or to refinance will depend on its leverage and future cash flow, which is subject to the operational performance, prevailing economic conditions, interest rate levels, and financial, competitive and other factors, many of which are beyond its control. These factors might inhibit Richards Packaging from refinancing the indebtedness at all or on favourable terms. In addition, the credit facilities contain 1) restrictive covenants that limit the discretion of management with respect to certain business matters and 2) financial covenants that require Richards Packaging to meet certain financial ratios and financial condition tests. A failure to comply with the obligations in the credit facilities could result in an event of default which, if not cured or waived, could permit acceleration of the relevant indebtedness. If the indebtedness under the credit facilities were to be accelerated, there can be no assurance that Richards Packaging's assets would be sufficient to repay in full that indebtedness.

Income taxes

On November 23, 2005 the Canadian Ministry of Finance completed its public consultation process related to income funds and decided not to change the taxation around income funds and unitholders. There can be no assurance that further reviews of the income tax policy surrounding income funds will not be undertaken in the future.

Richards Packaging's capital structure incorporates significant amounts of inter-company debt with Richards US. There is a risk that the U.S. Internal Revenue Service could successfully challenge the treatment of these note indentures as debt, in which case the associated interest would no longer be deductible.

Any adverse changes in the income tax profile of the Fund or its subsidiaries would have a detrimental effect on the Unit valuations and distributions net of personal income taxes.

Transactions with Related Parties

Richards Packaging leases four of its facilities from various former owners of Richards Packaging, or a subsequently acquired company, who are currently officers or unitholders. Some of the same officers provided loans associated with the sales of their companies, which were repaid in the year. Richards Packaging utilizes all of the production capability of Vision Plastics Inc., of which 50% is owned by the plant manager and 50% by Richards Packaging. All related party transactions are at rates that would be charged by arms-length parties.

Outstanding Share Data

At March 23, 2006, the Fund had 10,256,327 Units and Holdings had 524,685 exchangeable shares outstanding, respectively. See notes 10 and 11 of the attached consolidated financial statements for further discussion on the terms of the Units and exchangeable shares.

Critical Accounting Estimates

The preparation of the consolidated financial statements in conformity with Canadian generally accepted accounting practices requires the Fund to make estimates and assumptions which affect the reported, and disclosure of contingent, amounts for assets and liabilities as at December 31, 2005 and revenue and expenses for the year then ended. Critical accounting estimates used in the preparation of the consolidated financial statements are outlined below.

Allowance for doubtful accounts

Richards Packaging maintains an allowance for doubtful accounts which is reviewed periodically on an account-by-account basis with a focus on the creditworthiness, aging and historical collection experience. Based on this review, Richards Packaging believes the allowance as at December 31, 2005 is sufficient to cover the risks inherent in the outstanding receivables.

Inventory obsolescence

Richards Packaging monitors the future demand for its inventory on a product-by-product basis, aging and the prevailing demand conditions in local markets to record an allowance for obsolescence. Based upon this review, Richards Packaging believes the obsolescence provision is adequate to cover the risks inherent in the inventory on hand as at December 31, 2005.

Intangible assets

The Fund has recognized an intangible asset of $47.7 million as at April 7, 2004, $3.3 million as at November 30, 2004 and $2.3 million as of July 29, 2005 pertaining to the future customer relationships that are not under long-term contract but their buying pattern in the past indicates a long-term relationship. The basis of valuation assumed that the margin percent would remain constant and the duration of these relationships would be impacted by a retention rate of approximately 90% per year. In addition, the Fund recognized patent and trademark intangible assets of $4.0 million as of July 29, 2005 pertaining to the acquisition of Dispill. These non-cash assets, and the associated $17.7 million future income tax liabilities at December 31, 2005, will be amortized to income over 10 to 12 years. It should be noted that although these items affect the net income recorded by the Fund, they do not impact distributable cash flow[2] available to unitholders.

Goodwill

Goodwill represents the excess purchase price of acquired businesses over the estimated fair value of the net assets acquired. Goodwill is not amortized but is reviewed for impairment annually or more frequently if impairment indicators arise. At December 31, 2005 management evaluated goodwill for possible impairment and determined its fair value exceeds the carrying amount.

Change in Accounting Policy

The Fund adopted the new standard for exchangeable securities retroactively. As at December 31, 2004 the effect was a reduction of $4.7 million in unitholders' equity for the equity interest of exchangeable shareholders and now recognized as "non-controlling interests". The exchangeable shareholders' proportionate share of income, which was deducted from net income, was $0.4 million for the 2005 year and $0.2 million for the period from April 7 to December 31, 2004.

New Accounting Pronouncements

In June 2003, the CICA issued Accounting Guideline 15, "Consolidation of Variable Interest Entities" ("AcG-15"), requiring the consolidation of variable interest entities ("VIEs") by a primary beneficiary. The Fund has determined that its investment in Vision Plastics Inc., a 50% owned joint venture, is not a VIE and therefore there has not been any impact to the consolidated financial statements.

Future accounting changes

The following are a number of recently issued accounting standards that may affect the Fund in 2006 or subsequent years.

Financial Instruments – Recognition and Measurement

This new standard prescribes when a financial asset, financial liability or non-financial derivative is to be recognized on the balance sheet and at what amount, sometimes using fair value, other times using cost-based measures. It also specifies how financial instrument gains and losses are to be presented.

Hedges

This new standard is applicable whenever a company chooses to designate a hedging relationship for accounting purposes. It builds on existing Accounting Guideline 13, "Hedging Relationships" ("AcG-13") and Section 1650, "Foreign Currency Translation", by specifying how hedge accounting is applied and what disclosures are necessary when it is applied.

Comprehensive Income

This new pronouncement introduces new standards for the reporting and display of comprehensive income. Comprehensive income is the change in equity (net assets) of an enterprise during a reporting period from transactions and other events and circumstances from non-owner sources. It includes all changes in equity during a period except those resulting from investments and distributions to owners.

Equity

This new standard replaces Section 3250, "Surplus". It establishes standards for the presentation of equity and changes in equity during a reporting period.

The Fund is currently evaluating the above standards and cannot reasonably determine the effect at this time. These sections apply to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2006, but earlier adoption is permitted. The date of adoption has yet to be determined.

Disclosure Controls

The Fund has established and maintains disclosure controls and procedures over financial reporting. The Fund's Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of the Fund's disclosure controls and procedures as of December 31, 2005 and have concluded that such controls and procedures are adequate and effective.

Additional Information

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

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

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

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

4 *The Report to unitholders and this MD&A contain certain forward-looking statements (the "Statements") regarding future growth potential, results of operations, performance and business prospects and opportunities of the Fund. These Statements reflect management's current beliefs and are based on information currently available to the management of Richards Packaging. A number of factors could cause actual events or results to differ materially from those discussed in the Statements. Although the Statements contained in the report to the unitholders and the MD&A are based upon what management believes to be reasonable assumptions, there can be no assurance that actual results will be consistent with these Statements. These Statements are made as of the date of this report and the Fund assumes no obligation to update or revise them to reflect new events or circumstances.*