



2005 ANNUAL REPORT

Richards Packaging Income Fund

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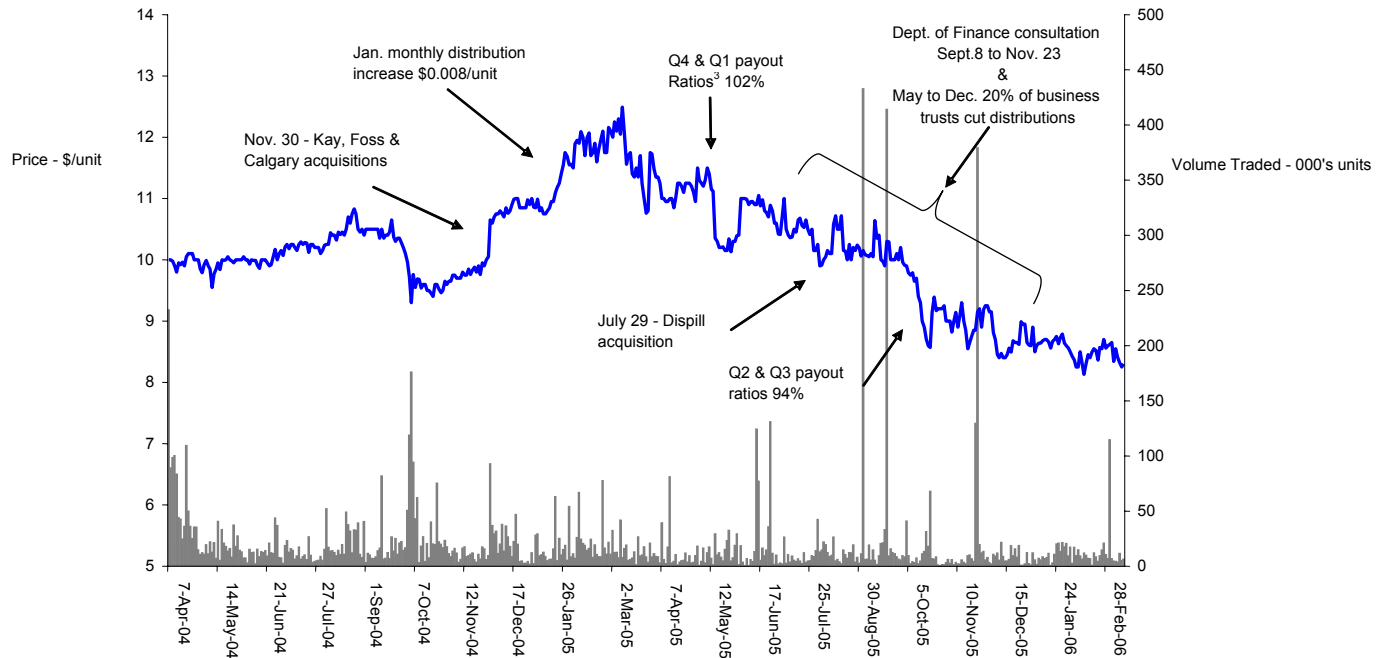


Good Things
Come in
Richards
Packaging

Richards Packaging Income Fund

INVESTMENT PROPOSITION

Charting Turbulent Times



Managing Turbulent Times

External Factors

Income Trust environment

- 20 business trusts succumb to adverse economic conditions and cut distributions (2004 – 3)
- Flight to large cap stocks creates a 3% spread in small cap yields
- Trust payout ratios³ increasing to approach 100%

Packaging Industry environment

- Packaging consumption growth is 3% per annum in line with population growth – recession proof
- Resin prices up 44% and oil prices up 34% for 2005 – unparalleled inflation
- Canadian dollar strengthening at U.S./Cdn.5¢ per year over last four years – low of U.S./Cdn.\$0.63
- Packaging manufacturers augment growth by penetrating distributors' base of large customers

Richards Packaging Performance

- Monthly distributions increased 9.5% to \$0.0935 per Unit for 2005 (19.6% tax free/80.4% interest)
- RPI.UN yields 12.5% at \$9/Unit which is average but will spread contraction ensue?
- Payout ratio briefly 102% at beginning of year but improved to 93% for 2005

- Strategic tuck-under acquisitions augmented organic growth – 7% overall for 2005
- Pricing discipline ensures inflation pass through with gross margins up 0.4% to 14.7%
- Borrowing in U.S. dollars to match interest expense with Richards U.S. cash flow
- Strategic target customer/product repositioning completed Qtr. 1, 2005 – large customers 40%

Richards Packaging Income Fund

CEO'S REPORT TO UNITHOLDERS

December 31, 2005

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

We are delighted with the fourth quarter results with organic growth of 2.0%, strong acquisition integration performance and gross margin up 0.9%, when compared with the same period in 2004. EBITDA¹ for the fourth quarter closed \$0.6 million above the same period in 2004, representing an increase of 0.2% to 9.9% of sales. These record results signal a stronger performance ahead⁴.

In spite of a challenging first quarter in 2005, Richards Packaging delivered strong results for the remainder of the 2005 year producing an EBITDA¹ of \$15.2 million. Overall, income fell short of management's expectations with EBITDA as a percent of sales down by 0.2% to 9.2%. We believe that Richards Packaging has established a strong platform from which to grow profitability, and expect EBITDA as a percent of sales to approach our long-term target of 10% in 2006⁴.

Richards Packaging borrowed \$3.2 million dollars to invest \$6.3 million in working capital over the first and second quarters to expand our Asian glass program and to ensure the Vancouver port strike would have no impact on our service levels. During the third quarter we deployed \$4.5 million from working capital improvements to lower accounts payable to normal levels of \$20 million. A further \$1.0 million improvement in the fourth quarter was used to repay part of the revolving credit. Over the next six months we expect our remaining excess working capital to be realized and deployed to eliminate the outstanding \$2.2 million balance on the revolving credit line.

Significant achievements in the 2005 year included the integration of four strategic acquisitions: Kay Containers, Foss Distributors and Calgary Plastics beginning the fourth quarter of 2004 and Dispill during the third quarter of 2005. The first quarter of 2005 saw the completion of a new management information system for the Canadian operations that will carry Richards Packaging forward for the next decade.

This was a watershed year as the management team clearly established they can execute on a strategic acquisition program and successfully integrate the new operations. However, the additional \$2.5 million contribution from the acquisitions during 2005 was offset by \$1.8 million of various operational issues with the base business which will be fully addressed in 2006. We have made a number of changes in the management team to strengthen the organic business and intend to ensure a stable baseline of performance prior to continuing with our acquisition program.

Richards Packaging enters 2006 as a leading North American packaging distribution company with a clear business strategy, a strong balance sheet, a high quality sales organization and a dedication to providing our customers with innovative value add packaging solutions. Our three acquisitions added on November 30, 2004 and one acquisition added July 29, 2005 were all perfect strategic fits. We are excited by their prospects and welcome their employees to the Richards Packaging family.

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

"Gerry Glynn"

Chief Executive Officer and Trustee
Richards Packaging Income Fund

March 23, 2006

Richards Packaging Income Fund

INDEPENDENT TRUSTEES' REPORT

December 31, 2005

It is our pleasure as independent trustees to provide this brief report on governance of the Fund.

The interests of unitholders are represented by five trustees, four independent trustees and the chief executive officer. Trustees also serve as directors of Richards Packaging and all of its wholly owned subsidiaries. The mandate of the trustees/directors is to monitor the strategic, business and financial plans of Richards Packaging, the succession plan for senior management, and ensure the integrity of reporting to unitholders. Our approach to corporate governance is to meet or exceed the guidelines developed by the Toronto Stock Exchange.

The trustees have established two committees for continuous monitoring of activities critical to the external auditors and good corporate governance. The audit committee is responsible for overseeing the activities of the external auditors, Ernst & Young LLP, the quality and thoroughness of financial reporting and the effectiveness of internal controls in providing financial information and safeguarding assets of Richards Packaging. The compensation and corporate governance committee assesses senior management and Trustee performance, reviews their compensation and oversees the succession planning process. All members of both committees are independent trustees.

Each trustee and officer of Richards Packaging is a unitholder and combined own 16% of the Fund. Accordingly, our motivation and interests are aligned with the public unitholders. Overall, our goal as trustees is to add value to Richards Packaging by contributing our broad experience and expertise in directing a controlled growth-oriented enterprise.

Monthly distributions of \$0.0935 per Unit were paid by the Fund during the 2005 year, with total distributions per Unit of \$1.122. The board of trustees is comfortable with a target payout ratio of approximately 90% and has improved the payout ratio throughout 2005 and maintained an average payout ratio of 93% for the 2005 year. The trustees will continue to monitor the performance of Richards Packaging with the objective of delivering stable and predictable distributions to unitholders.

In closing, we are satisfied with the progress made on governance of the Fund during its second year of existence and will continue to strive to serve the interests of the public unitholders, applying the highest standards of duty and care.

"Don Wright"
Chairman

"Wayne McLeod"
Chair - audit committee

"Rami Younes"
Trustee

"Derek Ridout"
Chair – compensation &
corporate governance committee

March 23, 2006

Richards Packaging Income Fund

MANAGEMENT'S DISCUSSION AND ANALYSIS

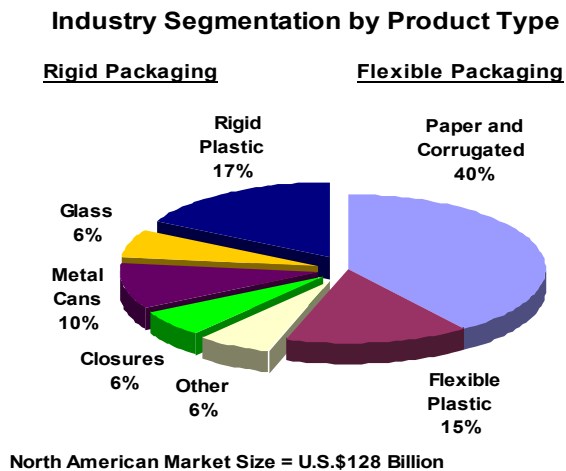
(expressed in thousands, except where otherwise indicated
and per unit amounts)

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.

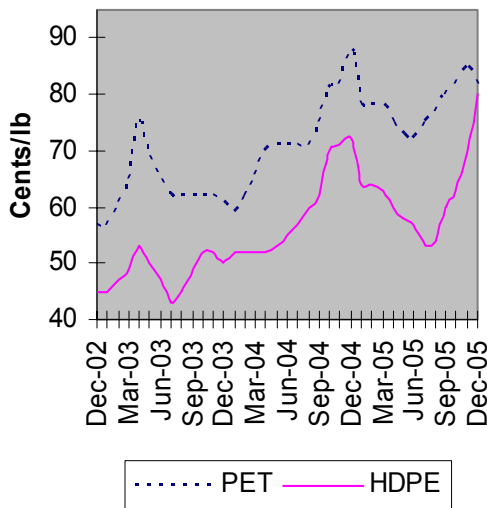
Richards Packaging Income Fund

MANAGEMENT'S DISCUSSION AND ANALYSIS

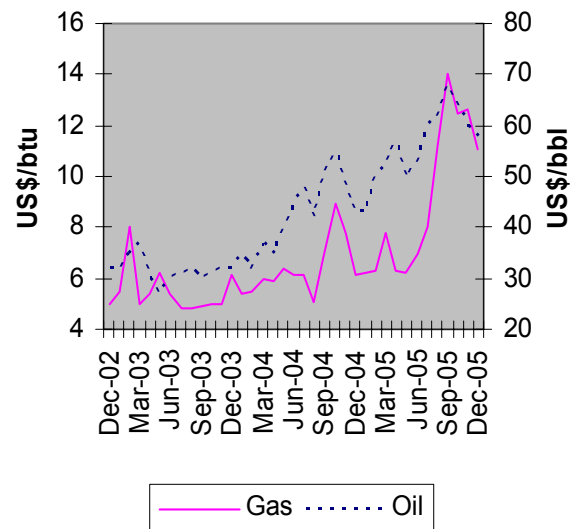
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March 23, 2006

Resin Prices



Oil & Natural Gas Prices



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.

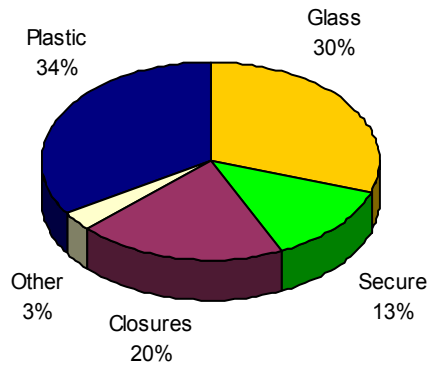
Richards Packaging Income Fund

MANAGEMENT'S DISCUSSION AND ANALYSIS

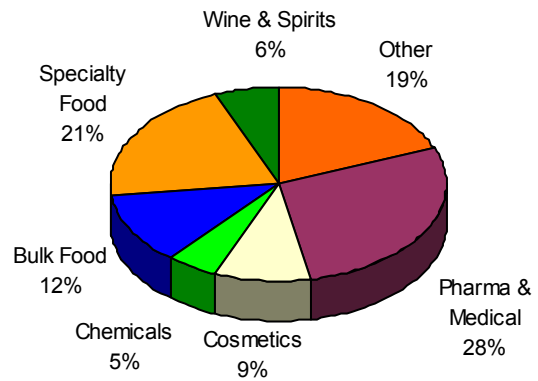
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March 23, 2006

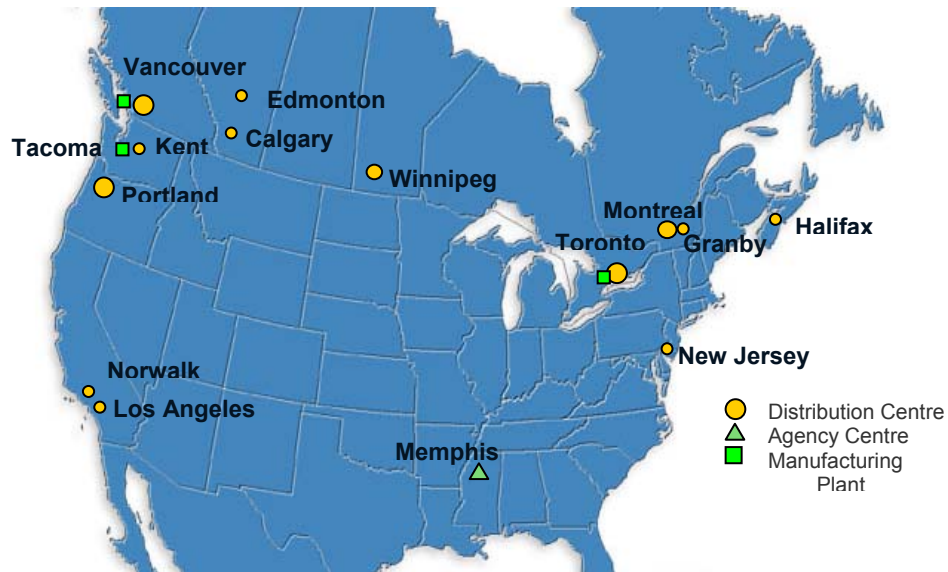
Revenue by Product



Revenue by End User



Richards Packaging Locations



Richards Packaging Income Fund

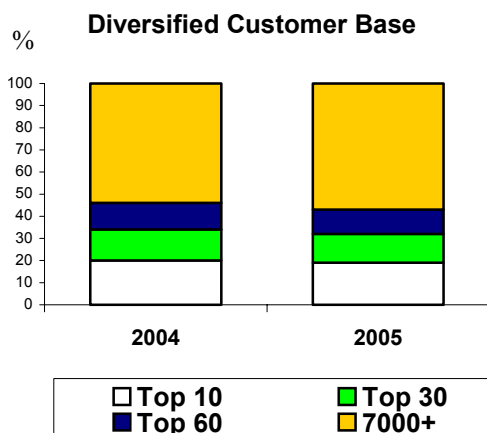
MANAGEMENT'S DISCUSSION AND ANALYSIS

(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 EBITDA¹ 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 flow² to \$1.203 per Unit. Given the cumulative distributions declared of \$1.122 per Unit, the implied payout ratio³ 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

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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
	2005	2004	2005	2004	2005	2004	2005 ^(c)	2004	2005 ^(a)	2004 ^(b)	Dec. 31
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
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
<i>Diluted per Unit</i>	\$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
<i>Diluted per Unit</i>	\$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
<i>Diluted per Unit</i>	\$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 EBITDA¹ 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.

Richards Packaging Income Fund

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

March 23, 2006

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
	2005	2004	2005	2004	2005	2004	2005 ^(d)	2004	2005 ^(a)	2004 ^(b)	Dec. 31
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
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 year⁴. 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

Richards Packaging Income Fund

MANAGEMENT'S DISCUSSION AND ANALYSIS

*(expressed in thousands, except where otherwise indicated
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March 23, 2006

year. Management estimates the combined annualized impact of these transactions will be revenue neutral, with an increase in earnings of \$1.5 million⁴.

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 annum⁴. 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.

EBITDA¹ 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.

Richards Packaging Income Fund

MANAGEMENT'S DISCUSSION AND ANALYSIS

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March 23, 2006

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 future⁴.

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
	2005	2005	2004 ^{b)}	2005	2004	2005 ^{c)}	2004	2005 ^{a)}	Dec. 31
	\$	\$	\$	\$	\$	\$	\$	\$	\$
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
EBITDA¹	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 flow²	2,979	3,210	2,951	3,214	3,172	3,567	2,692	12,970	8,815
<i>Diluted per Unit</i>	<i>\$0.276</i>	<i>\$0.298</i>	<i>\$0.276</i>	<i>\$0.298</i>	<i>\$0.296</i>	<i>\$0.331</i>	<i>\$0.250</i>	<i>\$1.203</i>	<i>\$0.822</i>
Distributions	3,024	3,024	2,500	3,024	2,745	3,024	2,756	12,096	8,001
<i>Diluted per Unit</i>	<i>\$0.281</i>	<i>\$0.280</i>	<i>\$0.233</i>	<i>\$0.280</i>	<i>\$0.256</i>	<i>\$0.281</i>	<i>\$0.257</i>	<i>\$1.122</i>	<i>\$0.746</i>
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).

Richards Packaging Income Fund

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

March 23, 2006

The distributable cash flow² 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 flow² 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 EBITDA¹ 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 appropriate⁴.

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 ratio³ 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

Richards Packaging Income Fund

MANAGEMENT'S DISCUSSION AND ANALYSIS

*(expressed in thousands, except where otherwise indicated
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March 23, 2006

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 future⁴.

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 future⁴.

Approximately 23% of distributable cash flow² 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.

Richards Packaging Income Fund

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

March 23, 2006

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.

Outlook⁴

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 EBITDA¹ 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,

Richards Packaging Income Fund

MANAGEMENT'S DISCUSSION AND ANALYSIS

*(expressed in thousands, except where otherwise indicated
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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

Richards Packaging Income Fund

MANAGEMENT'S DISCUSSION AND ANALYSIS

*(expressed in thousands, except where otherwise indicated
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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

Richards Packaging Income Fund

MANAGEMENT'S DISCUSSION AND ANALYSIS

*(expressed in thousands, except where otherwise indicated
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March 23, 2006

items affect the net income recorded by the Fund, they do not impact distributable cash flow² 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.

Richards Packaging Income Fund

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

March 23, 2006

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.

Richards Packaging Income Fund

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

March 23, 2006

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.

- 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 flow². 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.*

Richards Packaging Income Fund

MANAGEMENT'S REPORT TO UNITHOLDERS

The accompanying consolidated 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 consolidated financial statements were prepared in accordance with accounting principles generally accepted in Canada 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 23, 2006.

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 consolidated financial statements have been independently audited by Ernst & Young LLP on behalf of the unitholders, in accordance with generally accepted auditing standards in Canada. The Auditors' Report outlines the nature of their audit and expresses their opinion on the consolidated financial statements of the Fund.

"Gerry Glynn"

Chief Executive Officer

"Enzio Di Gennaro"

Chief Financial Officer

Toronto, Ontario
March 23, 2006

AUDITORS' REPORT

To the Unitholders of
Richards Packaging Income Fund

We have audited the consolidated balance sheets of Richards Packaging Income Fund as at December 31, 2005 and 2004 and the consolidated statements of income and deficit and cash flows for the year ended December 31, 2005 and 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 audits.

We conducted our audits 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, 2005 and 2004 and the results of its operations and its cash flows for the year ended December 31, 2005 and for the period from April 7, 2004 to December 31, 2004 in accordance with Canadian generally accepted accounting principles.

Toronto, Ontario
March 13, 2006

(Signed) Ernst & Young LLP
Chartered Accountants

Richards Packaging Income Fund

CONSOLIDATED BALANCE SHEETS

[expressed in thousands of dollars]

As at December 31

	2005	2004
	\$	\$
		<i>[restated-note 3]</i>
ASSETS <i>[note 8]</i>		
Current		
Cash and cash equivalents	479	3,507
Accounts receivable	23,367	20,872
Inventory	24,440	22,253
Prepaid expenses	1,078	1,492
Income taxes recoverable	43	1,245
Total current assets	49,407	49,369
Capital assets, net <i>[note 5]</i>	6,221	6,747
Deferred financing fees, net	808	1,474
Intangible assets, net <i>[note 6]</i>	48,489	47,373
Future income taxes <i>[note 12]</i>	3,636	3,337
Goodwill <i>[notes 1, 3, 4 and 7]</i>	57,289	55,104
	165,850	163,404
LIABILITIES AND UNITHOLDERS' EQUITY		
Current		
Bank indebtedness	1,312	—
Accounts payable and accrued liabilities	17,809	21,817
Income taxes payable	186	276
Distributions payable to unitholders <i>[note 11]</i>	959	876
Dividends payable to exchangeable shareholders <i>[note 10]</i>	49	45
Due to officers <i>[note 14]</i>	40	684
Short-term debt and current portion of long-term debt <i>[note 8]</i>	15,765	3,653
Total current liabilities	36,120	27,351
Long-term debt <i>[note 8]</i>	21,287	22,020
Future income tax <i>[note 12]</i>	18,663	18,309
Total liabilities	76,070	67,680
Non-controlling interests <i>[notes 3 and 10]</i>	4,442	4,731
Commitments and contingencies <i>[note 9]</i>		
Unitholders' equity <i>[note 3 and 10]</i>		
Units <i>[note 11]</i>	95,772	95,772
Deficit	(6,845)	(2,208)
Cumulative translation adjustment <i>[note 13]</i>	(3,589)	(2,571)
Total unitholders' equity	85,338	90,993
	165,850	163,404

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

“Wayne McLeod”
Chair – audit committee

“Gerry Glynn”
CEO

“Enzio Di Gennaro”
CFO

Richards Packaging Income Fund

CONSOLIDATED STATEMENTS OF INCOME AND DEFICIT

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

*For the year ended December 31, 2005 and
the period from April 7 to December 31, 2004*

	2005	2004
	\$	\$
Revenue	165,280	113,318
Cost of products sold	140,960	96,922
	24,320	16,396
General and administrative expenses	9,253	5,871
Foreign currency gains from operations <i>[note 16]</i>	(254)	(449)
Long-term incentive plan <i>[note 11]</i>	96	—
Income before under noted items, income taxes and non-controlling interests	15,225	10,974
Amortization		
Capital assets <i>[note 5]</i>	2,386	1,506
Intangible assets <i>[note 6]</i>	5,344	5,127
Deferred financing fees	670	494
Interest expense <i>[note 8]</i>	2,312	1,154
Unrealized losses (gains) on financial instruments <i>[note 16]</i>		
Interest rate swap contracts	15	(237)
Foreign exchange forward agreement	151	(151)
Foreign exchange on translation of short- and long-term debt	(1,343)	(1,802)
Income before income taxes and non-controlling interests	5,690	4,883
Provision (recovery) for income taxes <i>[note 12]</i>		
Current	482	286
Future	(2,015)	(1,088)
	(1,533)	(802)
Income before non-controlling interests	7,223	5,685
Non-controlling interests <i>[notes 3 and 10]</i>	352	244
Net income for the period	6,871	5,441
Deficit, beginning of period	(2,208)	—
Distributions declared to unitholders <i>[note 11]</i>	(11,508)	(7,649)
Deficit, end of period	(6,845)	(2,208)
Basic and diluted income per Unit	\$0.670	\$0.530
Weighted average number of Units outstanding		
Basic	10,256,327	10,256,327
Diluted	10,781,012	10,719,810

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

Richards Packaging Income Fund

CONSOLIDATED STATEMENTS OF CASH FLOWS

[expressed in thousands of dollars]

*For the year ended December 31, 2005 and
the period from April 7 to December 31, 2004*

	2005	2004
	\$	\$
OPERATING ACTIVITIES		
Net income for the period	6,871	5,441
Add (deduct) items not involving cash		
Amortization	8,400	7,127
Future income taxes	(2,015)	(1,088)
Non-controlling interests <i>[notes 3 and 10]</i>	352	244
Unrealized losses (gains) on financial instruments <i>[note 16]</i>	166	(388)
Unrealized foreign exchange gain on short- and long-term debt	(1,343)	(1,802)
	12,431	9,534
Net change in non-cash operating elements of working capital <i>[note 17]</i>	(6,788)	2,347
Cash provided by operating activities	5,643	11,881
INVESTING ACTIVITIES		
Additions to capital assets	(1,848)	(1,608)
Expenditures on patents and trademarks	(131)	—
Acquisition of Richards Packaging, net of cash acquired \$112 <i>[note 1]</i>	—	(69,185)
Acquisitions, net of cash acquired \$272 [2004 -\$163] <i>[note 4]</i>	(7,242)	(6,352)
Cash used in investing activities	(9,221)	(77,145)
FINANCING ACTIVITIES		
Increase (decrease) in bank indebtedness	1,312	(664)
Proceeds from short- and long-term debt, net	13,722	3,563
Repayment of short-term debt	(1,000)	—
Initial public offering of Fund Units, net of expenses	—	75,921
Repayment of due to officers	(644)	(244)
Dividends paid to exchangeable shareholders	(585)	(307)
Distributions paid to unitholders	(11,425)	(6,773)
Cash provided by financing activities	1,380	71,496
Foreign exchange loss	(830)	(2,725)
Net increase (decrease) in cash and cash equivalents	(3,028)	3,507
Cash and cash equivalents, beginning of period	3,507	—
Cash and cash equivalents, end of period	479	3,507

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, 2005

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 Richards Packaging Inc. shares and an indenture note through a series of transactions.

The Fund indirectly purchased 96% of the shares of Richards Packaging Inc. for \$86,161, including acquisition costs of \$417. The consideration consisted of \$68,880 in cash and the issuance of 1,686,414 Units at a price of \$10 per Unit. In addition, 455,185 Richards Packaging Holdings Inc.’s exchangeable shares were issued to officers for the remaining 4% of the outstanding shares of Richards Packaging Inc. These shares are reflected as non-controlling interests. 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 consolidated financial statements. 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
Customer orders	1,500
Customer relationships and contracts	47,700
Total assets acquired	100,337
Current liabilities	20,583
Long-term debt	23,958
Future income tax liability	17,676
Total liabilities assumed	62,217
Non-controlling interests [notes 3 and 10]	4,263
Fair value of net assets acquired	33,857
Goodwill	52,304
Purchase price	86,161

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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.

Principles of consolidation

The consolidated financial statements include the accounts of the Fund, 96% of Richards Packaging Holdings Inc. ["Holdings"], Richards Packaging Inc. ["Richards Canada"], and Richards Packaging, Inc. ["Richards US"], both wholly-owned directly or indirectly by Holdings, and 50% of Vision Plastics Inc. ["Vision"], one of its three plastic container manufacturing plants, which is jointly controlled. The remaining 4% of Holdings is classified as non-controlling interests. All the subsidiaries of the Fund are referred to as "Richards Packaging".

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. Balances with the right of offset are netted against bank indebtedness.

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

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Deferred financing fees

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 were amortized as shipped. Customer relationships and contracts are amortized over 10 years, patents over 12 years and trademarks over 11 years.

Goodwill

At the acquisition dates, 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 are comprised of capital assets and intangible assets subject to amortization which are reviewed for impairment whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. For purposes of evaluating the recoverability of long-lived assets, a test is performed using their undiscounted future net cash flows. Should impairment exist, the impairment loss would be measured as the difference between the carrying value and the fair value and recognized by way of an additional current period amortization charge. The Fund has not identified any such impairment losses to date.

Bank indebtedness

Bank indebtedness represents issued and outstanding cheques which have not yet been applied to the revolving credit facility.

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 for the Fund's subsidiary companies which are subject to tax has been recognized.

Richards Packaging Income Fund

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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 are recognized only to the extent that it is more likely than not that the assets will be realized.

Long-term incentive plan

Management of the Fund is eligible to participate in the Fund's long-term incentive plan. For a period of three 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. Long-term incentive plan costs are accrued based on excess distributions and recognized on a graded basis over the vesting 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 as a cumulative translation adjustment.

Derivative financial instruments

Derivative financial instruments are utilized from time to time 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

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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.

3. CHANGE IN ACCOUNTING POLICY

The Fund adopted effective January 1, 2005 the new Canadian Institute of Chartered Accountants ["CICA"] standards for Exchangeable Securities Issued by Subsidiaries of Income Trusts ["EIC 151"], which states that the exchangeable securities issued by a subsidiary of an income trust should be reflected as either non-controlling interests or debt on the consolidated balance sheet unless they meet certain criteria. The exchangeable shares issued by Holdings are transferable to third parties and therefore are reflected as non-controlling interests. Previously, the exchangeable shares, dividends, earnings and cumulative translation adjustment associated with non-controlling interests were a component of unitholders' equity. Consolidated net income for 2005 and 2004 has been reduced by the non-controlling interests' share of earnings. Goodwill has been reduced by \$289 on April 7, 2004.

In accordance with the transitional provisions of EIC 151, this accounting abstract has been applied retroactively, with restatement of the prior period *[notes 10 and 11]*.

4. ACQUISITIONS

Effective July 29, 2005, the Fund indirectly acquired all the shares of Dispill Inc. ["Dispill"] for consideration of \$7,514 including acquisition costs of \$92. The consideration was satisfied by a cash payment which was financed by the acquisition credit facility *[note 8]*.

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 acquisition credit facility, and the issuance of 69,500 Holdings exchangeable shares at \$10 per share *[note 10]* and an obligation of \$426 to the former shareholders associated with various representations and warranties in the purchase and sale agreements.

The necessary steps were taken to combine Dispill effective July 29, 2005 and Kay, Foss and Calgary effective December 1, 2004 within the legal structure of the Fund's subsidiaries.

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 respective effective dates of acquisition. The allocation of the purchase prices is outlined on the following page:

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	2005		2004		Total
	Dispill	Foss	Kay	Calgary	
	\$	\$	\$	\$	\$
Current assets	1,060	483	1,681	118	2,282
Capital assets	69	11	221	36	268
Patents and trademarks	4,030	—	—	—	—
Customer relationships and contracts	2,300	1,800	1,500	—	3,300
Total assets acquired	7,459	2,294	3,402	154	5,850
Current liabilities	424	224	1,060	97	1,381
Future income tax liability	2,283	624	561	—	1,185
Total liabilities assumed	2,707	848	1,621	97	2,566
Fair value of net assets acquired	4,752	1,446	1,781	57	3,284
Goodwill [note 7]	2,762	1,968	1,332	1,052	4,352
Purchase price	7,514	3,414	3,113	1,109	7,636

5. CAPITAL ASSETS

	Cost	Accumulated	Net book value	
	\$	amortization	2005	2004
	\$	\$	\$	\$
Manufacturing equipment	4,114	1,833	2,281	2,580
Moulds	3,008	1,248	1,760	1,624
Computer equipment	546	193	353	382
Computer software and system implementation	1,467	314	1,153	1,411
Warehouse and office equipment	821	251	570	651
Leasehold improvements	157	53	104	99
	10,113	3,892	6,221	6,747

Cost represents the fair value of the capital assets acquired in the initial acquisition of Richards Packaging Inc. [note 1], from subsequent acquisitions [note 4] and the cost of capital asset additions by the Fund's subsidiaries.

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6. INTANGIBLE ASSETS

<i>[notes 1 and 4]</i>	Cost	Accumulated	Net book value	
	\$	amortization	2005	2004
	\$	\$	\$	\$
Customer orders	1,500	1,500	—	—
Customer relationships and contracts	53,300	8,828	44,472	47,373
Patents and trademarks	4,161	144	4,017	—
	58,961	10,472	48,489	47,373

Cost represents the fair value of intangible assets acquired with the purchase of Richards Packaging Inc. [note 1] and the acquisitions [note 4]. Intangible assets amortization is not deductible for tax purposes.

7. GOODWILL

Changes in the carrying amounts of goodwill are as follows:

<i>[notes 1 and 4]</i>	2005	2004
	\$	\$
Opening goodwill	55,104	—
Acquired on the initial acquisition as at April 7, 2004	—	52,304
Acquired on acquisitions during the period	2,762	4,352
Foreign currency translation	(577)	(1,552)
	57,289	55,104

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

8. SHORT AND LONG-TERM DEBT

Immediately prior to the initial public offering by the Fund, Richards Packaging Inc. obtained new credit facilities. The revolving and acquisition credit lines were refinanced on June 5, 2005. Fees associated with this refinancing are deferred and amortized over the three-year term of these facilities. Credit facilities available to the Fund are outlined below:

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Debt facility	Due date	Interest rate	Outstanding balance		Total facilities
			2005	2004	
			\$	\$	\$
Revolving credit	June 5, 2006	See [i] below	2,200	—	7,000
Acquisition credit	June 5, 2006	See [ii] below	13,525	3,602	13,991
Term loan	See [iii] below	See [iii] below	40	51	40
Short-term debt and current portion of long-term debt			15,765	3,653	21,031
Term loan	April 6, 2007	See [iv] below	21,219	21,906	21,219
Term loan	See [iii] below	See [iii] below	68	114	68
Long-term debt			21,287	22,020	21,287

[i] The revolving credit facility consists of a Canadian operating line of credit of \$7,000 [2004 – \$5,000] bearing interest at the prime rate plus a premium of 1.0% to 1.75% and a standby fee of 0.4% to 0.55%. The effective interest rate at December 31, 2005 is 6.7%.

[ii] The acquisition credit facility consists of a line of credit of U.S.\$12,000 [2004 – U.S.\$5,250] bearing interest at LIBOR plus a premium of 2.0% to 2.75% and a standby fee of 0.4% to 0.55%. The effective interest rate at December 31, 2005 is 6.3% [2004 – 4.9%].

[iii] The outstanding balance consists of a term loan of \$108 [2004 – \$165] bearing interest at the prime rate plus 0.75% with monthly principal repayments of \$3. The term loan matures August 5, 2008. The effective interest rate at December 31, 2005 is 5.7% [2004 – 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%. The interest rate is subject to a fixed rate swap with an effective interest rate for the year of 5.0%, which is approximately 1.8% below the variable rate during the year [2004 – 0.7% above].

The debt facilities, except as noted in [iii] above, are payable in full on the due dates outlined in the above table.

Interest expense for the year ended December 31, 2005 is comprised as follows: term loan, revolving credit and acquisition credit interest of \$1,837 [2004 – \$863], credit card commission charges of \$265 [2004 – \$206] and credit facility charges of \$210 [2004 – \$85].

Richards Canada has provided a first charge over all of its assets as collateral for the revolving credit facility, the acquisition credit facility and the U.S.\$18,200 term loan. The term loan noted in [iii] above is secured by a first charge on all of Vision's assets.

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9. COMMITMENTS AND CONTINGENCIES

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

	Related parties \$	Other \$	Total \$
2006	803	2,209	3,012
2007	803	2,030	2,833
2008	641	1,837	2,478
2009	24	1,617	1,641
2010	—	392	392
Thereafter	—	986	986

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.

10. NON-CONTROLLING INTERESTS

The non-controlling interests represent exchangeable shares issued by Holdings to officers of Richards Canada on the initial public offering [note 1] and as partial consideration for a business acquisition [note 4]. The exchangeable shares, dividends, cumulative translation adjustment and earnings associated with the non-controlling interests were formerly included in unitholders' equity [note 3].

	Number of shares	Dividends per share	Deficit \$	\$
Initial public offering, April 7, 2004	455,185			4,263
Additional shares issued in the period	69,500			695
Allocation of cumulative translation adjustment				(119)
Non-controlling interest - net income			244	
Dividends for the period		\$0.746	(352)	(108)
Balance, December 31, 2004	524,685			4,731
Allocation of cumulative translation adjustment				(52)
Non-controlling interest - net income			352	
Dividends for the year		\$1.122	(589)	(237)
Balance, December 31, 2005	524,685			4,442

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These exchangeable shares are redeemable by Holdings on April 7, 2009, or prior to that date in limited circumstances, 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. Exchangeable shares carry the right to vote at any meeting that unitholders are entitled to vote on the same basis.

Dividends paid to the exchangeable shareholders are not subordinated to distributions to unitholders and are declared on the same basis net of applicable taxes. Dividends are made monthly to shareholders of record on the last business day of each month and paid on the 15th day of the following month.

11. UNITS

The capital contributions by unitholders were as follows:

	Number of Units	\$
Issued on initial public offering	8,569,913	85,699
Issued for partial acquisition of Richards Packaging Inc.	1,686,414	16,864
Issuance costs net of capital contributions and future income taxes		(6,791)
	10,256,327	95,772

No new Units were issued after April 7, 2004, the date of the initial public offering. Exchangeable share capital [\$5,247] has been reclassified as non-controlling interests [notes 3 and 10].

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.

Distributions

Distributions are made monthly to unitholders of record on the last business day of each month and paid on the 15th day of the following month. Distributions declared monthly during the year ended December 31, 2005 were \$959 or \$0.0935 per Unit. Monthly distributions declared during the months of May to December 2004 were \$876 or \$0.0854 per Unit and for the period April 7 to April 30, 2004 was \$642 or \$0.0626 per Unit.

Long-term incentive plan

Key senior management of Richards Packaging are eligible to participate in the long-term incentive plan [the "LTIP"]. The purpose of the LTIP is to attract, retain and motivate key personnel who

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contribute significantly to per Unit cash flow. Units awarded under the LTIP will vest over a three-year period, with one-third of the Units vesting each year. To the extent that annual distributions exceed \$1.025 per year, amounts will be contributed to the LTIP on the following basis:

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

For the year ended December 31, 2005, \$96 of compensation expense was recognized. Distributions for the period ended December 31, 2004 did not exceed the threshold and therefore no compensation expense was recognized.

12. INCOME TAXES

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

	2005 \$	2004 \$
Income before income taxes and non-controlling interests	5,690	4,883
Distributions to unitholders, not subject to tax in the Fund	(9,656)	(7,080)
	(3,966)	(2,197)
Statutory tax rate	36.1%	36.1%
Recovery for income taxes at statutory tax rate	(1,432)	(793)
Adjustments to income taxes		
Temporary differences		
Unrealized gains on financial instruments	(183)	(454)
Equity placement fees	(642)	(263)
Penalty on discharge of debt	(189)	(142)
Intangible assets	2,002	1,944
Loss for income tax not utilized	832	278
Amortization	110	(275)
Other temporary differences	85	—
Current period adjustments		
Foreign exchange gain on translation of long-term-debt	(238)	(326)
Withholding tax on dividends and fees from Richards US	141	348
Loss for income tax not recognized	38	—
Other non-taxable items	(42)	(31)
Current income taxes	482	286
Recovery of future income taxes	(2,015)	(1,088)

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

	2005	2004
	\$	\$
Future income tax assets		
Equity placement fees	1,867	2,509
Loan termination fees	361	550
Loss for income tax not utilized	1,323	278
Other	85	—
	3,636	3,337
Future income tax liabilities		
Capital assets	352	462
Unrealized gains on financial instruments	628	445
Patents and trademarks	1,390	—
Customer relationships and contracts	16,293	17,402
	18,663	18,309

In addition to the equity placement fees accounted for above, the Fund has approximately \$1,320 of fees available to be deducted over the next four years. Also, in addition to the losses that have been recognized above, the Fund's subsidiaries have \$1,918 of non-capital loss carry forwards which are available to reduce future years' income taxes payable. These loss carry forwards expire at the earliest in 2013. The reversal of the patents and trademarks and customer relationships and contracts accounts above will not give rise to income taxes payable.

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 US 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 \$1,464 for the year ended December 31, 2005 [2004 – \$1,149], should be deductible by Richards US 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 Service ["IRS"] will not challenge the tax filing position taken by Richards US, 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 2005 would be approximately \$586, or \$0.054 per Unit, on a diluted basis [2004 – \$460, or \$0.043 per Unit].

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13. 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 \$1,018 during the year ended December 31, 2005 and \$2,571 for the period ended December 31, 2004 resulted from the strengthening of the Canadian dollar against the U.S. dollar.

14. RELATED PARTY TRANSACTIONS

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

	2005	2004
	\$	\$
Four leases of facilities from certain officers and their related entities	584	318
Product purchases from Vision [note 15]	8,262	7,020

The amount due to certain officers of \$40 as at December 31, 2005 is non-interest bearing and has no fixed terms of repayment [2004 – \$684].

15. JOINT VENTURE

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

	2005	2004
	\$	\$
Balance sheet		
Assets		
Current assets	1,673	1,622
Capital assets	1,454	1,856
Total assets	3,127	3,478
Liabilities		
Current liabilities	468	621
Long-term debt	218	279
Future income taxes	79	102
Total liabilities	765	1,002

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Statement of income

Revenue	8,262	7,020
Total expenses	8,374	7,000
Net income (loss)	(112)	20

Additional information

Cash provided by operating activities	622	172
Cash used in investing activities	160	177
Cash used in financing activities	112	146

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

16. FINANCIAL INSTRUMENTS

Fair value

Cash and cash equivalents, accounts receivable, income taxes recoverable (payable), bank indebtedness, 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 value as these debts bears interest at rates comparable to current market rates.

The fair value of the interest rate swap contracts represent an unrealized gain of approximately \$222 [2004 – \$237].

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. At December 31, 2005 and 2004 no customer represented 10% or more of the consolidated 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 and acquisition credit facilities and term loans are dependent on either LIBOR or the bank's prime rate. The Fund has entered into interest rate swap

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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 CICA Accounting Guideline 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./U.S.\$ 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 was in place at Cdn./U.S.\$0.73 to sell U.S.\$100 per month through September 30, 2005. The fair value of the foreign currency standard rate agreement as at December 31, 2004 represented an unrealized gain of \$151.

A foreign exchange gain of \$254 from operations has been recorded in the year ended December 31, 2005 [2004 - \$449].

A foreign exchange gain of \$1,343 from the translation of the U.S. dollar denominated short- and long-term debt has been recorded in the year ended December 31, 2005 [2004 - \$1,802]. The foreign exchange gain is a result of the change in the U.S./Cdn. rate from \$1.2036 to \$1.1659 [2004 - \$1.3048 to \$1.2036].

17. CONSOLIDATED STATEMENTS OF CASH FLOWS

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

	2005	2004
	\$	\$
Accounts receivable	(1,645)	1,575
Inventory	(1,682)	(2,013)
Prepaid expenses	265	21
Accounts payable and accrued liabilities	(4,382)	2,467
Income taxes recoverable	656	297
	(6,788)	2,347

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

	2005	2004
	\$	\$
Interest paid	2,015	1,057
Income taxes recovered	95	206

Richards Packaging Income Fund

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

December 31, 2005

Non-cash investing and financing activities

On April 7, 2004, the Fund acquired all the outstanding shares of Richards Packaging Inc. with \$16,864 of the purchase price being settled by the issuance of 1,684,414 Units valued at \$10 per Unit *[note 1]*.

During the period ended December 31, 2004, the Fund acquired all the outstanding shares of Calgary with \$695 of the purchase price being settled by the issuance of 69,500 exchangeable shares valued at \$10 per share *[note 4]*.

18. 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	
	2005	2004	2005	2004
	\$	\$	\$	\$
Revenue	107,734	69,879	57,546	43,439
Capital assets and goodwill	43,351	41,244	20,159	20,607

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

Richards Packaging Income Fund
UNITHOLDER INFORMATION

Trustees and Directors

Donald Wright
Chairman

Wayne McLeod
Chair – audit committee

Derek Ridout
Chair – compensation and corporate
governance committee

Rami Younes
Trustee

Gerry Glynn
Trustee

Management Team

Gerry Glynn
Chief executive officer

David Prupas
President and Chief operating officer

Enzio Di Gennaro
Chief financial officer

Terry Edwards
Vice president

Joe Teufel
Vice president

Corporate Information

Transfer agent and registrar

CIBC Mellon Trust Company
P.O. Box 7010
Adelaide Street Postal Station
Toronto, Ontario M5C 2W9
www.cibcmellon.com

Investor information

Annual information filing, the prospectus
and the quarterly reports are available at
www.richardspackaging.com, SEDAR at
www.sedar.com or on TSX at www.tsx.com.

Head office

3115 Lenworth Drive
Mississauga, Ontario L4X 2G5
(905) 624-3391

Toronto Stock Exchange listing

Symbol : RPI.UN

Annual meeting

Thursday, May 18th at 2:00 p.m.
The executive board room
TSX conference center
The Exchange Tower
130 King Street West
Toronto, Ontario