Q3 QUARTERLY REPORT

Richards Packaging Income Fund

Quarter ended September 30, 2006

Report Contents

Richards

Richards Packaging Income Fund

CEO'S REPORT TO UNITHOLDERS

September 30, 2006

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.

Richards Packaging Income Fund delivered another record quarter with gross margin and EBITDA[1] for the third quarter exceeding the levels seen in our prior record quarters. We achieved an additional $0.8 million EBITDA in the third quarter over the prior year, and exceeded the profit improvement plan for the year by $0.4 million after the nine months. EBITDA as a percentage of sales at 11.9% represents the strongest quarterly performance since the inception of the Fund. Revenue for the nine months of 2006 was flat when compared with the same period in 2005 after adjusting for foreign exchange translation and the exit of our agency relationship with Omaha Containers. Net income was down $0.6 million, or 5.8¢ per Unit, for the third quarter due to currency translation gains on financial instruments experienced in 2005 not occurring in the third quarter.

We have also exceeded the $2.2 million target working capital reduction program in the quarter and generated $4.2 million for the nine months this year, ½ of which was used to repay debt with the other ½ used to build cash balances. During the quarter, we generated an additional $1.8 million which was deployed to pay the final $1.2 million outstanding on the revolving credit line and build cash balances.

Significant achievements during the third quarter included exceeding the profit improvement plan while achieving gross profit margins in excess of 17% and the repayment of the revolving credit through the working capital reduction program.

On October 31st, the Minister of Finance announced his *Tax Fairness Plan* which included the taxation of income trusts beginning in 2011. Investor reaction was immediate leading to a 14% decrease in the value of our Units. Due to the announcement, we will be exploring our options over the next four years to minimize any adverse affects on unitholders.

The Fund paid monthly distributions of 9.35¢ per Unit for January through September, which represents an annualized yield of 15.3% on a $7.35 price per Unit. The payout ratio for both the third quarter and for the nine months of 2006 was 92%, a reduction from 94% and 96% respectively for the same periods in 2005.

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

"Gerry Glynn" November 10, 2006
Chief Executive Officer,
Richards Packaging Inc.

Richards Packaging Income Fund

MANAGEMENT'S DISCUSSION AND ANALYSIS

[expressed in thousands, except where otherwise indicated]

November 10, 2006

This management's discussion and analysis ("MD&A") of Richards Packaging Income Fund for the third quarter should be read in conjunction with the attached interim unaudited consolidated financial statements dated September 30, 2006, the first and second quarter reports dated May 12, 2006 and August 9, 2006, respectively, the 2005 Annual Report and the 2005 Annual Information Form dated March 23, 2006 respectively. 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 2005 annual financial statements.

Fund Profile and Description of the Business

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 Inc. ("Richards Packaging"). The Units are listed on the Toronto Stock Exchange under the symbol RPI.UN.

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.

Highlights and Selected Financial Information

Highlights of the overall performance of the Fund for the third quarter 2006 include:

- Revenue of $39.0 million with the $2.8 million drop against 2005 due to exiting the Omaha agency and the impact of the Canadian dollar strengthening to an average rate of U.S./Cdn. $0.89.
- Exceeded the 2006 profit improvement plan with a further $0.8 million increase in EBITDA[1].
- Achieved record EBITDA at 11.9% as a percentage of sales.
- Eliminated borrowings under the revolving credit facility with the repayment of $1.2 million out of cash flow from our working capital reduction initiative.
- Paid monthly distributions of 9.35¢ per Unit to yield a 15.3% annualized return on a price per Unit of $7.35.
- Increased distributable cash flow[2] to over $0.30 per Unit resulting in a 92% payout ratio[3], reduced from 94% in the prior year.

Richards Packaging Income Fund

[expressed in thousands, except where otherwise indicated]

November 10, 2006

This MD&A covers the three and nine months ended September 30, 2006 (generally referred to in this MD&A as the "third quarter" and the "nine months", respectively). The following table sets out selected consolidated financial information of the Fund:

	Qtr. 3		Nine months	
	2006	**2005**	**2006**	**2005**
	$	$	$	$
Income Statement Data:				
Revenue	**38,966**	**41,723**	**118,681**	**124,597**
EBITDA[1]	**4,637**	**3,809**	**13,407**	**10,705**
Diluted per Unit	***$0.430***	***$0.353***	***$1.244***	***$0.993***
Net income	**1,930**	**2,518**	**7,123**	**4,964**
Diluted per Unit	***$0.188***	***$0.246***	***$0.694***	***$0.484***
Balance Sheet Data:				
Total assets	**154,475**	**169,658**		
Bank debt outstanding	**33,538**	**37,920**		
Cash Flow Statement Data:				
Distributions	**3,024**	**3,024**	**9,072**	**9,072**
Diluted per Unit	***$0.280***	***$0.280***	***$0.841***	***$0.841***
Payout ratio[3]	***92%***	***94%***	***92%***	***96%***

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 on net income due to various non-cash accounting charges that depress net income such as amortization, unrealized gains and losses on financial instruments and future income taxes.

Review of Operations

Richards Packaging's operations are approximately 70% in Canada and 30% 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.

Revenue for the third quarter decreased by $2.8 million, or 6.6%, from the same period in 2005. This decrease was attributable to the translation of Richards US revenue due to the Canadian dollar strengthening by U.S./Cdn.$0.059 to U.S./Cdn.$0.892 ($1.1 million), $1.5 million due to the departure of the Omaha agency and $0.2 million as customer churn outpaced new business in the quarter. Revenue for the nine months decreased by $5.9 million, or 4.7%, from the same period in 2005. This decrease was due to the translation of Richards US revenue with the Canadian dollar strengthening by U.S./Cdn. $0.066 ($3.8 million), the departure of the Omaha agency ($1.5 million) and churn outpacing growth ($0.6 million).

Richards Packaging Income Fund

[expressed in thousands, except where otherwise indicated]

November 10, 2006

	Qtr. 3		Nine months	
	2006	**2005**	**2006**	**2005**
	$	$	$	$
Revenue	**38,966**	**41,723**	**118,681**	**124,597**
Cost of products sold	**32,066**	**35,608**	**98,455**	**106,991**
Gross profit	**6,900**	**6,115**	**20,226**	**17,606**
	17.7%	*14.7%*	*17.0%*	*14.1%*
Expenses	**2,230**	**2,352**	**6,754**	**6,995**
Long-term incentive plan	**32**	**23**	**98**	**70**
Foreign exchange loss (gain) from operations	**1**	**(69)**	**(33)**	**(164)**
EBITDA[1]	**4,637**	**3,809**	**13,407**	**10,705**
Amortization	**2,116**	**2,113**	**6,355**	**6,138**
Interest expense	**796**	**652**	**2,297**	**1,639**
Unrealized losses (gains) on financial instruments	**9**	**(1,877)**	**(1,284)**	**(1,403)**
Income tax expense (recovery)	**(312)**	**274**	**(1,448)**	**(888)**
Non-controlling interests	**98**	**129**	**364**	**255**
Net Income	**1,930**	**2,518**	**7,123**	**4,964**

The impact of exchange translation will subside to U.S./Cdn.$0.03 if current exchange rates of U.S./Cdn.$0.88 prevail for the remainder of the year when compared to U.S./Cdn.$0.85 in the prior year. Higher U.S./Cdn. exchange rates continue to put pressure on the revenue line but have no impact on distributable cash flow due to the US denominated interest expense acting as a natural hedge for cash flow from Richards US.

Cost of products sold for the third quarter was lower by $3.5 million, or 9.9%, from the same period in 2005. Synergies achieved from the integration of the acquisitions continue to reduce selling and distribution costs resulting in a gross profit improvement of three percentage points to 17.7% for the third quarter from the same period in 2005. Cost of products sold for the nine months decreased by $8.5 million, or 8.0% from the same period in 2005. Also contributing to the gross profit improvement was our continued shift to higher margin products such as Asian glass, pharmaceuticals and specialty plastic packaging. The volatility in the price of resins during the nine months did not have a material impact on gross profit as a result of management's practice of immediately passing through increases or decreases to customers.

General and administrative expenses for the third quarter and the nine months were lower by $0.1 million, or 5.2% and $0.2 million, or 3.4%, respectively from the same periods in 2005. The decreases were due to cost containment initiatives launched under the profit improvement plan.

EBITDA[1] for the third quarter increased by $0.8 million, or 21.7%, and by $2.7 million, or 25.2% for the nine months from the same periods in 2005, respectively. As a percent of sales, EBITDA was 11.9% for the third quarter and 11.3% for the nine months compared to 9.1% and 8.6% for the same periods in 2005, respectively. Changes were a result of the factors referred to above. Significant progress has been made in the nine months to optimize the performance of operations and exceed management's long-term target of 10%[4].

Other expenses of the Fund included amortization and interest, which were higher due to the addition of intangible assets and financing associated with the acquisitions; unrealized foreign exchange gains and losses on translation of long-term debt, which reflects the higher borrowings in U.S. dollars and quarterly movements in the exchange rate and unrealized losses on financial instruments. The only cash item in other expenses is interest paid.

Amortization of $2.1 million for the third quarter was mainly comprised of $1.4 million for intangibles, which represents a charge for customer relationships, patents and trademarks. The remaining amortization amounts consisted of deferred financing fees of $0.1 million and capital asset amortization of $0.6 million per quarter, which is approximately three times Richards Packaging's maintenance capital expenditure spending requirement.

Interest expense for the third quarter increased by $0.1 million and by $0.7 million for the nine months from the same periods in 2005. Approximately one-half of the increase was due to additional debt associated with the acquisition of Dispill with the other half due to higher variable interest rates as compared to the same periods in 2005.

The term loan outstanding as at September 30, 2006 was U.S.$30.0 million, which has given rise to the unrealized foreign currency translation gain of $4.7 million since the initial facility funding. On April 7, 2004 the exchange rate was U.S./Cdn.$0.760 and closed on September 30, 2006 at U.S./Cdn.$0.897. Richards Packaging has borrowed mainly in U.S. dollars to match the resulting U.S. dollar interest obligations with the U.S. dollars it receives from Richards US. It is management's intention to continue to borrow funds denominated in U.S. dollars for the foreseeable future[4] to fund acquisitions. This translation gain is fully offset by the $5.2 million currency translation loss on the net investment in Richards US charged directly to the unitholders' equity and non-controlling interests.

Income tax recoveries of $0.3 million for the third quarter and $1.4 million for the nine months mainly reflect the impact of the changes in enacted tax rates in Canada on future tax assets and liabilities. Current income taxes of $0.3 million for the third quarter and $0.5 million for the nine months mainly reflect the tax on Richards US and are expected to be $0.1 million for the remainder of the year[4]. Net future tax assets available to shield income taxes are $2.3 million.

Net income for the third quarter was $1.9 million and $7.1 million for the nine months, which represented $0.188 and $0.694 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.

Distributable Cash Flow[2]

The distributable cash flow[2] definition excludes changes in working capital as they are necessary to drive organic growth and are expected to be financed by a $5.0 million revolving facility available to Richards Packaging (nil drawn). Likewise, capital expenditures for expansion of the business are excluded as they are intended to generate future growth in distributable cash and are financed primarily by a U.S.$7.0 million acquisition facility (nil drawn).

Richards Packaging Income Fund

[expressed in thousands, except where otherwise indicated]

November 10, 2006

	Qtr. 3		Nine months	
	2006	2005	2006	2005
	$	$	$	$
Cash provided by operating activities	**5,390**	**1,446**	**14,773**	**1,361**
Change in working capital items	**(1,805)**	**1,535**	**(4,197)**	**7,835**
Non-cash charges	**1,052**	**828**	**2,831**	**1,509**
EBITDA[1]	**4,637**	**3,809**	**13,407**	**10,705**
Interest expense	**796**	**652**	**2,297**	**1,639**
Cash income tax expense (recovered)	**256**	**(193)**	**534**	**(841)**
Maintenance capital expenditures	**291**	**126**	**687**	**458**
Loan principal payments	**10**	**10**	**30**	**46**
Distributable cash flow[2]	**3,284**	**3,214**	**9,859**	**9,403**
Diluted per Unit	***$0.305***	***$0.298***	***$0.914***	***$0.872***
Distributions and dividends	**3,024**	**3,024**	**9,072**	**9,072**
Diluted per Unit	***$0.280***	***$0.280***	***$0.841***	***$0.841***
Payout ratio[3]	***92%***	***94%***	***92%***	***96%***
Number of Units outstanding on a diluted basis	**10,781**	**10,781**	**10,781**	**10,781**

Distributable cash flow[2] for the third quarter and for the nine months increased by $0.1 million and by $0.5 million, respectively from the same periods in 2005. Overall, stronger EBITDA[1] was offset by higher interest associated with the acquisitions and cash income taxes associated with Richards US. Maintenance capital expenditures of $0.3 million, comprised primarily of moulds, are tracking slightly ahead of management's annual target of $0.75 million[4].

Monthly distributions for the third quarter at 9.35¢ per Unit, represents an annual yield of 15.3% on an $7.35 price per Unit and a payout ratio of 92%. The Trustees believe that a long-term payout ratio target of 90% continues to be appropriate and provides a reasonable cushion to enhance the stability and predictability of future distributions. Based upon the nine months of 2006, 80.0% of the distributions will represent interest on the subordinated note held by the Fund and 20.0% will be treated as a return of capital to the unitholders.

Liquidity and Financing

Cash flows from operating activities

Cash flow from operating activities was stronger for the third quarter and for the nine months at $5.4 million and $14.8 million, respectively than the same period in 2005 primarily due to the absence of the working capital investment made to fund growth last year. The financial structure of the Fund allows for maximum distributions of cash flow from operations to the unitholders and shareholders as outlined above in the distributable cash discussion. Actual distributions and dividends paid during the third quarter were $3.0 million with an additional $1.0 million declared for September, which was paid on October 13th.

Cash income taxes

Cash income tax expense for the third quarter was $0.3 million and $0.5 million for the nine months of 2006, representing current income tax for Richards US. The loss carry forwards in Richards Packaging ensure that income tax leakage will be limited to Richards US for the foreseeable future[4].

Capital expenditures

Capital expenditures for the third quarter were $0.3 million, all incurred on account of maintenance capital. For the nine months of 2006, capital expenditures were $0.7 million, all on account of maintenance 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 is expected to be limited for the remainder of the year[4].

Financing activities and instruments

Richards Packaging's credit facilities include a U.S.$30.0 million term loan with repayment on June 5, 2009, up to $5.0 million in revolving debt to fund working capital and up to U.S.$7 million for expansion capital and/or acquisition financing to June 4, 2007. During the second quarter the acquisition debt of U.S.$11.6 million was repaid with proceeds from the term debt facility.

During the third quarter, Richards Packaging repaid the remaining $1.2 million outstanding under the revolving credit line. Management believes that with this refinancing and combined with cash flow from operations, adequate funds are available to Richards Packaging for the foreseeable future[4].

Approximately 27% of distributable cash flow for the nine months was provided by Richards US. Interest on the U.S. dollar debt negates the inherent foreign currency exchange risk. This position hedged substantially all of the distributable cash flow from Richards US for the third quarter.

Richards Packaging is exposed to interest rate risk due to variable interest rates on the revolving credit facility, acquisition facility and term loans. Richards Packaging had entered into interest rate swap contracts through to April 1, 2006. Management is currently reviewing its options to manage the interest rate risk including the re-establishment of interest rate swap contracts.

Outlook[4]

Management believes that the performance of Richards Packaging is on track to meet ongoing requirements for working capital, capital expenditures and to sustain monthly distributions to unitholders at the current levels for the remainder of the year. Our long-term objective is to modestly increase distributions in line with annual sales growth of 3 to 5%.

EBITDA[1] was up by $2.7 million for the nine months as management has realized $0.9 million in excess of the $1.8 million profit improvement plan. However, we expect that $0.5 million of this excess will reverse in the fourth quarter as the additional EBITDA for the same period in 2005 included a reversal of annual accruals that is not expected to repeat.

Interest expense is expected to decrease for the remainder of the year with the reduction in revolving debt outstanding. Although the recorded interest expense continues to fall due to foreign exchange translation rates, that benefit to distributable cash flow[2] will be equal to the lower EBITDA[1] after translation from Richards US.

Maintenance capital of $0.7 million for the nine months was funded by cash flow from operations and is expected to be $0.8 million for 2006. Expansion capital is expected to be in the order of $1 to $2 million over the next three 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

An investment in Units involves risks inherent in the ordinary course of business of Richards Packaging including: the sustainability of customer and supplier relationships, the financial stability of customers, competition from other packaging companies, inventory obsolescence, supply and transportation disruptions, resin price volatility and exchange rate, interest rate fluctuations and reliance on key personnel. For a detailed description of these and other risks and uncertainties facing investors in the Fund please refer to the 2005 Annual Information Form dated March 23, 2006. To management's knowledge, with the exception of the item noted below, no other significant changes to those risks and uncertainties have occurred in the nine months of 2006.

On October 31, the Minister of Finance announced proposed changes to the taxation of income trusts under its *Tax Fairness Plan*. Beginning in the 2011 taxation year, distributions would be disallowed as deductions by the Fund. If these changes are enacted, and at such time as the new tax rules apply, the distributable cash flow[2] of the Fund will be significantly reduced to reflect the taxes payable by the Fund. Such changes may adversely affect the marketability of the Fund's units and therefore the ability of the Fund to undertake equity financings to facilitate acquisitions.

Transactions with Related Parties

Richards Packaging leases three of its facilities from various former owners of Richards Packaging who are currently officers and unitholders. 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.

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, amounts for assets and liabilities as at September 30, 2006 and revenue and expenses for the period then ended. Changes in these accounting estimates may have an impact on the financial results of Richards Packaging and the Fund. There have not been any significant changes in the critical accounting estimates of the Fund in the nine months of 2006, relative to December 31, 2005. For more information on critical accounting estimates, see the Management's Discussion and Analysis, the audited consolidated financial statements and the notes to the consolidated financial statements included in the Fund's 2005 Annual Report.

Additional Information

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

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

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

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

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

Notice to Unitholders
The attached consolidated financial statements have not been reviewed
by the Fund's external auditors

Richards Packaging Income Fund

CONSOLIDATED BALANCE SHEETS

Unaudited
[expressed in thousands of dollars]

As at September 30, 2006 and December 31, 2005

	2006 $	2005 $
ASSETS		
Current		
Cash and cash equivalents	**805**	**479**
Accounts receivable	**19,535**	**23,367**
Inventory	**22,846**	**24,440**
Prepaid expenses	**1,556**	**1,078**
Income taxes recoverable	**10**	**43**
Total current assets	**44,752**	**49,407**
Capital assets, net	**5,203**	**6,221**
Deferred financing fees, net	**477**	**808**
Intangible assets, net	**44,466**	**48,489**
Future income taxes *[note 5]*	**3,069**	**3,636**
Goodwill	**56,508**	**57,289**
	154,475	**165,850**
LIABILITIES AND UNITHOLDERS' EQUITY		
Current		
Bank indebtedness	**—**	**1,312**
Accounts payable and accrued liabilities	**16,777**	**17,849**
Income taxes payable	**282**	**186**
Distributions payable to unitholders	**959**	**959**
Dividends payable to exchangeable shareholders	**49**	**49**
Short-term debt and current portion of long-term debt *[note 3]*	**41**	**15,765**
Total current liabilities	**18,108**	**36,120**
Long-term debt *[note 3]*	**33,497**	**21,287**
Future income taxes *[note 5]*	**16,129**	**18,663**
Total liabilities	**67,734**	**76,070**
Non-controlling interests *[note 4]*	**4,293**	**4,442**
Unitholders' equity		
Units	**95,772**	**95,772**
Deficit	**(8,353)**	**(6,845)**
Cumulative translation adjustment	**(4,971)**	**(3,589)**
Total unitholders' equity	**82,448**	**85,338**
	154,475	**165,850**

See accompanying notes

"Gerry Glynn"
CEO, Richards Packaging Inc.

"Enzio Di Gennaro"
CFO, Richards Packaging Inc.

Richards Packaging Income Fund

CONSOLIDATED STATEMENTS OF INCOME AND DEFICIT

Unaudited

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

For the three and nine months ended September 30

	Three months		Nine months	
	2006	**2005**	**2006**	**2005**
	$	$	$	$
Revenue	**38,966**	**41,723**	**118,681**	**124,597**
Cost of products sold	**32,066**	**35,608**	**98,455**	**106,991**
Gross profit	**6,900**	**6,115**	**20,226**	**17,606**
General and administrative expenses	**2,230**	**2,352**	**6,754**	**6,995**
Foreign currency loss (gain) from operations	**1**	**(69)**	**(33)**	**(164)**
Long-term incentive plan	**32**	**23**	**98**	**70**
Income before under noted items, income taxes and non-controlling interests	**4,637**	**3,809**	**13,407**	**10,705**
Amortization				
Capital assets	**576**	**597**	**1,653**	**1,712**
Intangible assets	**1,435**	**1,354**	**4,296**	**3,919**
Deferred financing fees	**105**	**162**	**406**	**507**
Interest expense	**796**	**652**	**2,297**	**1,639**
Unrealized losses (gains) on financial instruments				
Interest rate swap contracts	**—**	**26**	**222**	**(47)**
Foreign exchange forward agreement	**—**	**21**	**—**	**130**
Foreign exchange on translation of short- and long-term debt	**9**	**(1,924)**	**(1,506)**	**(1,486)**
Income before income taxes and non-controlling interests	**1,716**	**2,921**	**6,039**	**4,331**
Provision for (recovery of) income taxes *[note 5]*				
Current	**256**	**176**	**534**	**(130)**
Future	**(568)**	**98**	**(1,982)**	**(758)**
	(312)	**274**	**(1,448)**	**(888)**
Income before non-controlling interests	**2,028**	**2,647**	**7,487**	**5,219**
Non-controlling interests *[note 4]*	**98**	**129**	**364**	**255**
Net income for the period	**1,930**	**2,518**	**7,123**	**4,964**
Deficit, beginning of period	**(7,406)**	**(5,516)**	**(6,845)**	**(2,208)**
Distributions declared to unitholders	**(2,877)**	**(2,877)**	**(8,631)**	**(8,631)**
Deficit, end of period	**(8,353)**	**(5,875)**	**(8,353)**	**(5,875)**
Basic and diluted income per Unit	**$0.188**	**$0.246**	**$0.694**	**$0.484**
Weighted average number of Units outstanding				
Basic	**10,256,327**	**10,256,327**	**10,256,327**	**10,256,327**
Diluted	**10,781,012**	**10,781,012**	**10,781,012**	**10,781,012**

See accompanying notes

Richards Packaging Income Fund

CONSOLIDATED STATEMENTS OF CASH FLOWS

Unaudited

[expressed in thousands of dollars]

For the three and nine months ended September 30

	Three months		Nine months	
	2006	**2005**	**2006**	**2005**
	$	$	$	$
OPERATING ACTIVITIES				
Net income for the period	**1,930**	**2,518**	**7,123**	**4,964**
Add (deduct) items not involving cash				
Amortization	**2,116**	**2,113**	**6,355**	**6,138**
Future income taxes	**(568)**	**98**	**(1,982)**	**(758)**
Non-controlling interests *[note 4]*	**98**	**129**	**364**	**255**
Unrealized losses on financial instruments	**—**	**47**	**222**	**83**
Unrealized foreign exchange loss (gain) on short- and long-term debt	**9**	**(1,924)**	**(1,506)**	**(1,486)**
	3,585	**2,981**	**10,576**	**9,196**
Net change in non-cash operating elements of working capital *[note 6]*	**1,805**	**(1,535)**	**4,197**	**(7,835)**
Cash provided by operating activities	**5,390**	**1,446**	**14,773**	**1,361**
INVESTING ACTIVITIES				
Additions to capital assets	**(291)**	**(272)**	**(687)**	**(1,432)**
Expenditures on patents and trademarks	**(71)**	**—**	**(273)**	**—**
Acquisition of Dispill, net of cash acquired $303	**—**	**(7,205)**	**—**	**(7,205)**
Cash used in investing activities	**(362)**	**(7,477)**	**(960)**	**(8,637)**
FINANCING ACTIVITIES				
Increase (decrease) in bank indebtedness	**(183)**	**421**	**(1,312)**	**421**
Proceeds from short- and long-term debt, net	**—**	**7,774**	**12,978**	**13,733**
Repayment of short-term debt	**(1,214)**	**—**	**(15,073)**	**—**
Repayment of due to officers	**—**	**(311)**	**—**	**(590)**
Dividends paid to exchangeable shareholders	**(147)**	**(147)**	**(441)**	**(437)**
Distributions paid to unitholders	**(2,877)**	**(2,877)**	**(8,631)**	**(8,548)**
Cash provided by (used in) financing activities	**(4,421)**	**4,860**	**(12,479)**	**4,579**
Foreign exchange gain (loss)	**3**	**3**	**(1,008)**	**(655)**
Net increase (decrease) in cash and cash equivalents	**610**	**(1,168)**	**326**	**(3,352)**
Cash and cash equivalents, beginning of period	**195**	**1,323**	**479**	**3,507**
Cash and cash equivalents, end of period	**805**	**155**	**805**	**155**

See accompanying notes

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Unaudited

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

September 30, 2006

1. FORMATION OF THE FUND

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.

Effective April 7, 2004, the Fund completed an initial public offering of trust units of the Fund [the “Units”] to facilitate the indirect acquisition of 96% of the shares of Richards Packaging Inc. and an indenture note through a series of transactions for consideration of $86,161.

Effective November 30, 2004, the Fund indirectly acquired all the shares of Kay Containers Ltd., Calgary Plastics Container Supply Ltd. and M.A. Foss Distributors Ltd. for consideration of $7,636.

Effective July 29, 2005, the Fund indirectly acquired all the shares of Dispill Inc. for consideration of $7,514.

2. BASIS OF PRESENTATION

These unaudited interim consolidated financial statements of the Fund have been prepared in accordance with Canadian generally accepted accounting principles using disclosure standards appropriate for interim financial statements. As such these statements do not contain all the explanatory notes, descriptions or accounting policies or other disclosures that can be found in the Fund’s 2005 audited annual consolidated financial statements. The accounting policies used in the preparation of these unaudited interim consolidated financial statements are consistent with the 2005 audited annual consolidated financial statements.

3. SHORT- AND LONG-TERM DEBT

During the third quarter, the $1,200 outstanding balance drawn on the revolving credit facility was repaid and the availability on the revolving and acquisition credit facilities were reduced by $2,000 to $5,000 and by U.S.$5,000 to U.S.$7,000,respectively. During the second quarter, Richards Packaging Inc. converted the outstanding balance in the acquisition credit facility of U.S.$11,600 into long-term debt bringing the total long-term debt to U.S.$30,000. The due dates of the revolving and acquisition credit facilities were also extended to June 4, 2007 and the term debt facility to June 5, 2009.

4. NON-CONTROLLING INTERESTS

As at September 30, 2006, 524,685 exchangeable shares remain outstanding [2005 – 524,685]. The change in carrying value of the non-controlling interests for the nine months ended September 30, 2006 represents $364 of net income [2005 – $255] offset by $441 of dividends [2005 – $441] and $72 of cumulative translation adjustment loss [2005 – loss of $58].

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Unaudited

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

September 30, 2006

5. INCOME TAXES

The income tax expense (recovery) differs from the provision computed at statutory rates due to the various adjustments outlined below:

	Three months		Nine months	
	2006	**2005**	**2006**	**2005**
	$	$	$	$
Income before income taxes and non-controlling interests	**1,716**	**2,921**	**6,039**	**4,331**
Distributions to unitholders, not subject to tax in the Fund	**(2,449)**	**(2,439)**	**(7,251)**	**(7,225)**
	(733)	**482**	**(1,212)**	**(2,894)**
Statutory tax rate	***36.1%***	***36.1%***	***36.1%***	***36.1%***
Income tax expense (recovery) at statutory tax rate	**(265)**	**174**	**(438)**	**(1,045)**
Adjustments to income taxes				
Temporary differences				
Unrealized gains on financial instruments	**1**	**(317)**	**(130)**	**(234)**
Equity placement fees	**(151)**	**(152)**	**(486)**	**(456)**
Penalty on discharge of debt	**(47)**	**(36)**	**(141)**	**(106)**
Intangible assets	**499**	**509**	**2,332**	**1,431**
Loss for income tax not utilized	**156**	**(54)**	**26**	**119**
Amortization	**102**	**(48)**	**332**	**4**
Other temporary differences	**8**	**—**	**49**	**—**
Current period adjustments				
Changes in enacted tax rates	**—**	**—**	**(877)**	**—**
Foreign exchange loss on translation of long-term-debt	**1**	**(334)**	**(206)**	**(263)**
Withholding tax	**34**	**—**	**103**	**—**
Loss for income tax not utilized	**—**	**388**	**—**	**388**
Other non-taxable items	**(82)**	**46**	**(30)**	**32**
Current income taxes	**256**	**176**	**534**	**(130)**
Future income taxes	**(568)**	**98**	**(1,982)**	**(758)**

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Unaudited

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

September 30, 2006

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

	2006	2005
	$	$
Future income tax assets		
Equity placement fees	**1,381**	**1,867**
Loan termination fees	**220**	**361**
Loss for income tax not utilized	**1,349**	**1,323**
Other	**119**	**85**
	3,069	**3,636**
Future income tax liabilities		
Capital assets	**20**	**352**
Unrealized gains on financial instruments	**758**	**628**
Patents and trademarks	**1,291**	**1,390**
Customer relationships	**14,060**	**16,293**
	16,129	**18,663**

6. CONSOLIDATED STATEMENTS OF CASH FLOWS

The net change in non-cash operating elements of working capital and the cash flow impact of interest and income taxes consists of the following:

	Three months		Nine months	
	2006	2005	2006	2005
	$	$	$	$
Accounts receivable	**1,574**	**1,950**	**4,063**	**(2,737)**
Inventory	**(76)**	**317**	**1,946**	**(5,140)**
Prepaid expenses	**43**	**756**	**(675)**	**189**
Accounts payable and accrued liabilities	**(92)**	**(4,468)**	**(1,261)**	**(325)**
Income taxes	**356**	**(90)**	**124**	**178**
Working capital decrease (increase)	**1,805**	**(1,535)**	**4,197**	**(7,835)**
Interest paid	**825**	**565**	**2,338**	**948**
Income taxes paid (recovered)	**(96)**	**263**	**(423)**	**(590)**