

Good Things Come in Richards Packaging

ANNUAL REPORT 2006



Richards Packaging Income Fund

Report Contents

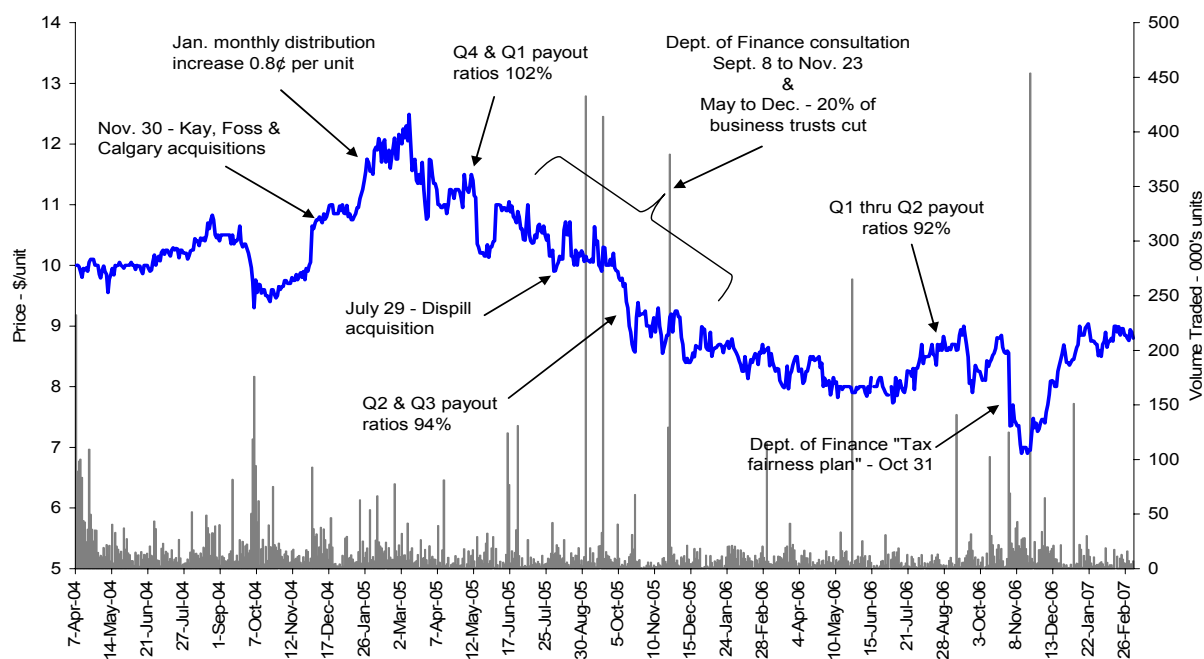
CEO's report to unitholders	3
Independent Trustees' report	4
Management's discussion and analysis.....	5
Management's report to unitholders	20
Auditors' report.....	21
Consolidated financial statements.....	22
Unitholder information	39



Richards Packaging Income Fund

INVESTMENT PROPOSITION

Charting Turbulent Times



Managing Turbulent Times

External Factors

Income Trust environment

- 10 business trusts sell to private equity or strategic buyers, 9 announce “strategic reviews”
- 13 business trusts succumb to adverse economic conditions and cut distributions (2005 – 20)
- Flight to large cap stocks creates a 3% spread from small cap yields
- Trust payout ratios³ increasing to approach 100%

Packaging Industry environment

- Packaging market growth is 2% per annum in line with population growth – recession proof
- Resin prices continue to be volatile; declines in Q4 should curb inflationary pressures
- Cdn.\$ strengthening at U.S./Cdn.5¢ per year over last five years – low of U.S./Cdn.63¢, high 91¢
- Packaging manufacturers augment growth by penetrating distributors’ base of large customers

Richards Packaging Performance

- $EV^4/EBITDA^1$ below private equity multiple – re-launch acquisition program
- Monthly distributions increased 9.5% to 9.35¢ per Unit from 2004 (19% tax free/81% taxable)
- RPI.UN yields 12.5% at \$9/Unit which is average but will spread contraction ensue?
- Payout ratio 93% for 2005 and 2006

- Organic growth of 0.9% reflects inflationary pressures and price discipline
- Pricing discipline ensures inflation passes through with gross margins up 2.3% to 17.0%
- Borrowing in U.S. dollars to match interest expense with Richards US cash flow
- Strategic target customer/product repositioning continues – large customers 40%

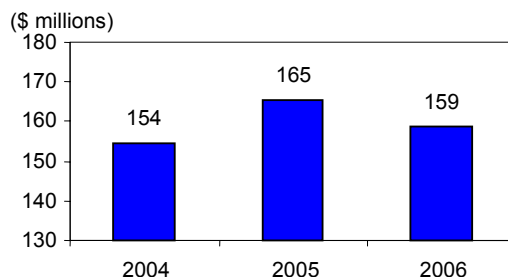
Richards Packaging Income Fund

PERFORMANCE SNAPSHOT

2006 Optimization Plan Complete

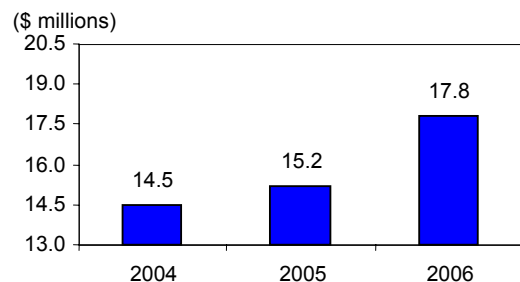
Revenue

- Organic growth \$1.4 mil. (2005 – \$2.3 mil.)
- Acquisition growth nil (2005 – \$12.0 mil.)
- Non-cash currency translation loss \$4.3 mil. (2005 – \$3.6 mil.)
- Non-strategic customer elimination \$1.5 mil. (2005 – \$0.7 mil.)
- Omaha agency exit \$1.9 mil.



EBITDA¹

- Strengthened management team to address organic business
- Organic profit improvements \$1.4 mil. (2005 – \$1.5 mil. loss) – 11% compounded growth
- Acquisitions \$0.8 mil. (2005 – \$2.2 mil.)
- Expansion capital impact \$0.4 mil. (2005 – nil)
- EBITDA 11.2% of sales (2005 – 9.2%)



Cash Management

- Working capital reduction \$2.7 mil. (2005 – \$7.3 mil. increase)
- Revolver repayment \$2.2 mil. (2005 – \$1.0 mil.)
- Cash is net - bank overdraft \$1.3 mil. covered
- Debt refinanced in June for 3 years - acquisition debt converted to term debt
- Debt translation gain nil (2005 – \$1.3 mil.)

(\$ millions)	Apr-04	Dec-04	Dec-05	Dec-06
Working capital	23.9	21.4	28.7	26.0
Cash	3.8	3.5	0.5	1.9
Revolver	–	0.1	2.2	–
Acquisition	–	3.6	13.5	–
Term	24.6	22.0	21.3	35.0
Net Debt	20.8	22.2	36.5	33.1

Distribution Policy

- “Tax fairness plan” 2011 impact negligible for taxable & adverse for non-taxable unitholders
- Compounded distributable cash flow² growth of 7.5% will cover the 2011 Trust tax obligations
- Tax shields of \$2 mil. available for 2011
- Payout ratio³ 93% (2005 – 93%) – long-term target of 90%

(\$ per unit)	Taxable		Non-taxable	
	Current	Proforma	Current	Proforma
Return of Capital	0.21	0.21	0.21	0.21
Interest/Dividends	0.91	0.91	0.91	0.91
Tax-Trust	–	0.29	–	0.29
-Unitholder	0.42	0.13	–	–
Net Distribution	0.70	0.70	1.12	0.83

Richards Packaging Income Fund

CEO'S REPORT TO UNITHOLDERS

December 31, 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.

Fourth quarter results exceeded our expectations with organic growth of 4.1%, strong acquisition integration performance and gross margin up 0.3%, when compared with the same period in 2005. EBITDA¹ for the fourth quarter closed up \$0.4 million from the same period in 2005, representing a 1.0% increase to 10.9% of sales. These results are in line with the performance of the first three quarters and reflect the successful execution of our profit improvement plan.

Richards Packaging delivered strong results for the 2006 year with gross margin up 2.3% and EBITDA¹ up \$2.6 million. Overall, income exceeded management's target improvement plan by \$0.8 million with EBITDA up by 2.0% to 11.2% of sales. After a year of pause to fully integrate the acquisitions from 2004 and 2005 and to optimize our business model, we believe that Richards Packaging has now established a strong platform from which to grow profitability and the timing is right to explore acquisition opportunities.

Richards Packaging borrowed \$3.2 million during 2005 to invest in working capital. Cash flow from profits and our working capital reduction program were deployed to discharge this debt, to cover the \$1.3 million of bank overdraft and to increase cash on hand by \$1.4 million. Over the next six months we expect our remaining excess working capital to be realized and deployed in our acquisition program⁵.

Significant achievements in the 2006 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, success in our profit and working capital improvement plans and the refinancing of our debt for an additional three years.

The income trust capital markets were thrown into turmoil post Halloween by the Conservative government with the liquidity, valuation and future access to capital all up in the air. Some funds privatized or announced "strategic reviews", some launched "poison pills" and unit buy back programs and most funds withdrew unit and convertible public offerings. For Richards Packaging investors, cooler heads prevailed as 1.6 million units, or 16%, were accumulated by new investors at bargain prices. At current prices our Units are below private equity multiples and represent good value. As we go forward on our acquisition plans, access to capital will likely include some combination of bank debt, convertible debt and Units based upon market conditions at the time.

Richards Packaging enters 2007 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 acquisitions since the inception of the Fund were all accretive and strong strategic fits and we are excited by the prospects of executing our strategic plan and growing the Richards Packaging family.

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

"Gerry Glynn"
Chief Executive Officer
Richards Packaging Inc.

March 6, 2007

Richards Packaging Income Fund

INDEPENDENT TRUSTEES' REPORT

December 31, 2006

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 of Richards Packaging Inc. Trustees also serve as directors of Richards Packaging and all of its wholly owned subsidiaries. The mandate of the trustees is to ensure the integrity of reporting to unitholders, while the directors monitor the strategic, business and financial plans of Richards Packaging, and the succession plan for senior management. Our approach to corporate governance is to meet or exceed the guidelines developed by the Ontario Securities Commission.

The trustees have established the audit committee which 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 directors have established the compensation and corporate governance committee to assess senior management performance, review their compensation and oversee the succession planning process. All members of both committees are independent of management.

Each trustee, director and officer of Richards Packaging is a unitholder and combined own 19% of the Fund. Accordingly, our motivation and interests are aligned with the public unitholders. Overall, our goal as directors and officers is to add value to Richards Packaging by contributing our broad experience and expertise in directing a controlled growth-oriented enterprise.

Monthly distributions of 9.35¢ per Unit were paid by the Fund during the 2006 year, with annual distributions per Unit of \$1.122. The board of trustees is comfortable with a target payout ratio of approximately 90% and has maintained an average payout ratio of 93% for the 2006 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 third 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 6, 2007

Richards Packaging Income Fund

MANAGEMENT'S DISCUSSION AND ANALYSIS

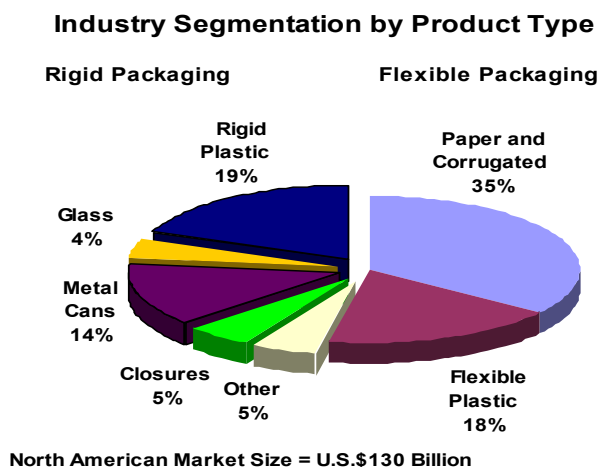
(expressed in thousands, except where otherwise indicated
and per Unit amounts)

March 6, 2007

This management's discussion and analysis of Richards Packaging Income Fund ("MD&A") for the 2006 year should be read in conjunction with the attached audited consolidated financial statements for the year ended December 31, 2006, the quarterly reports for the periods ended March 31, June 30 and September 30, 2006, and the Annual Information Form dated March 6, 2007. 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. Market growth in 2006 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 concentration is medium in the rigid plastic, flexible plastic and closure segments with 10 to 15 companies controlling 50% to 60% of their market. In 2006 there were over 350 acquisitions in the global packaging industry, up 6% over 2005 with an average value of U.S.\$110 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 \$1.3 billion on capital at the cautious rate of 4% 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 2006. Overall sales growth for these companies averaged 6% for the last two years.

Energy prices continue to be a major factor for the industry affecting glass furnace economics, resin costs and freight costs. Oil prices continued to climb over the first half of the year but retreated in the second half back to levels seen at the beginning of the year. Financing structures in place at most packaging companies are similar to that of an income trust, with significant use of debt priced anywhere from 7% to 13% 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 12% overall for 2006.

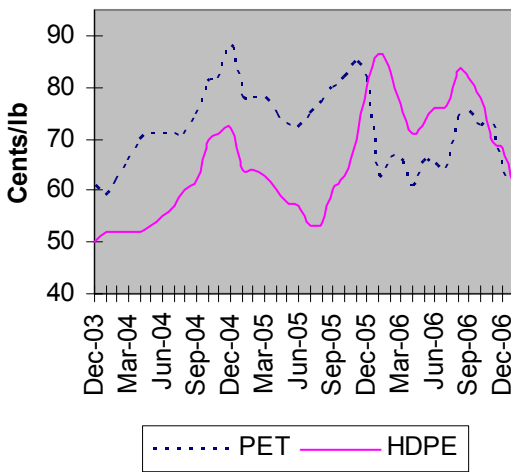
Richards Packaging Income Fund

MANAGEMENT'S DISCUSSION AND ANALYSIS

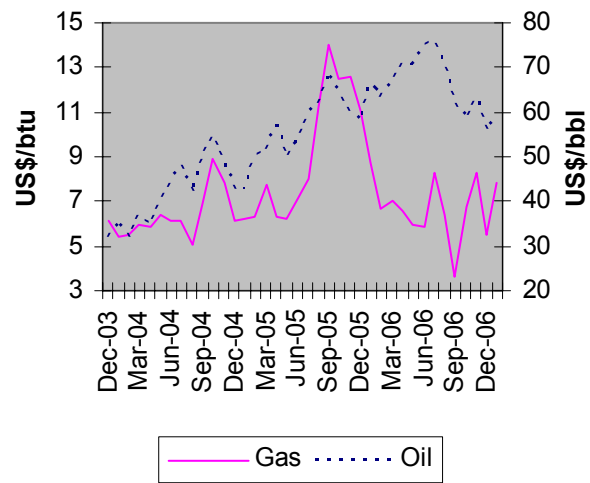
(expressed in thousands, except where otherwise indicated
and per Unit amounts)

March 6, 2007

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. Sales from these manufacturing facilities represent 22% of the total revenues of Richards Packaging. 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.

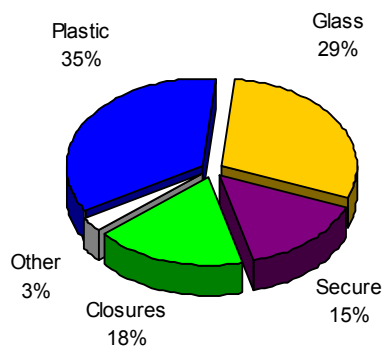
Richards Packaging Income Fund

MANAGEMENT'S DISCUSSION AND ANALYSIS

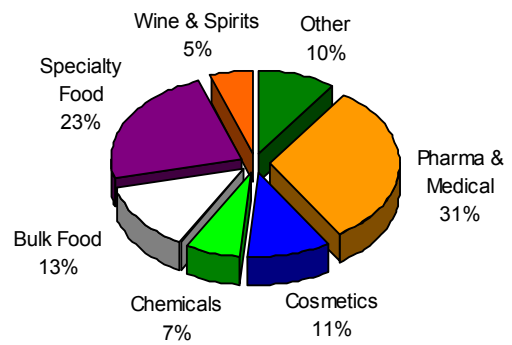
(expressed in thousands, except where otherwise indicated and per Unit amounts)

March 6, 2007

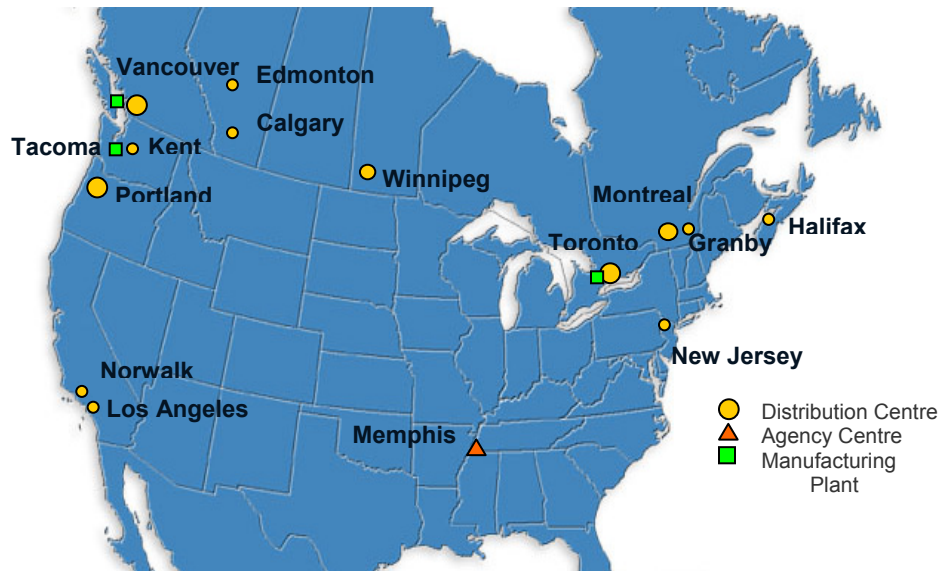
Revenue by Product



Revenue by End User



Richards Packaging Locations



Richards Packaging Income Fund

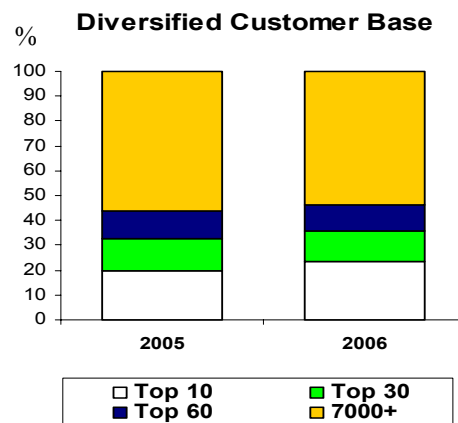
MANAGEMENT'S DISCUSSION AND ANALYSIS

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

March 6, 2007

The cornerstones of Richards Packaging's strategy include:

- Focusing on a diversified customer base that is dominated by small regional premium product marketers,
- Providing 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 2006, management continued to strategically reposition Richards Packaging in the marketplace to optimize 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 2006 year include:

- Organic growth of 0.9% partially offsetting impact of strategic repositioning, agency exit and foreign exchange translation,
- Strengthened management team and completed the integration plans of the four acquisitions from 2005 and 2004,
- Exceeded our target profit improvement plan with an EBITDA¹ increase of \$2.6 million or 17%. Increased EBITDA as a percentage of sales by 2.0% to 11.2%,
- Utilized cash flow from our working capital reduction program, eliminated revolving credit borrowings of \$2.2 million, covered outstanding cheques of \$1.3 million and increased cash on hand by \$1.4 million,
- Refinanced with the existing lending syndicate converting the borrowing on the acquisition credit facility to the long-term credit facility and extended maturity for three years,
- Paid monthly distributions of 9.35¢ per Unit to yield a 12.5% annualized return (@\$9/Unit), and
- Maintained distributable cash flow² of \$1.21 per Unit. Given the cumulative distributions declared of \$1.12 per Unit, the implied payout ratio³ was 93%.

Richards Packaging Income Fund

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

March 6, 2007

The MD&A covers the three months ended December 31, 2006, the 12 months ended December 31, 2006 and 2005 (generally referred to in this MD&A as the "fourth quarter", the "2006 year" and the "2005 year" respectively). Selective comparative information for the 12 months ended December 31, 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
	2006	2005	2006	2005	2006	2005	2006	2005 ^{c)}	2006 ^{a)}	2005 ^{a)}	2004 ^{b)}	Dec. 31
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Income Statement Data:												
Revenue.....	40,053	39,818	39,662	43,056	38,966	41,723	40,324	40,683	159,005	165,280	154,402	113,318
EBITDA ¹	4,362	3,030	4,408	3,866	4,637	3,809	4,399	4,520	17,806	15,225	14,538	10,974
<i>Diluted per Unit ..</i>	<i>40.5¢</i>	<i>28.1¢</i>	<i>40.9¢</i>	<i>35.9¢</i>	<i>43.0¢</i>	<i>35.3¢</i>	<i>40.8¢</i>	<i>41.9¢</i>	<i>\$1.652</i>	<i>\$1.412</i>	<i>\$1.355</i>	<i>\$1.024</i>
Net income	1,587	1,106	3,606	1,340	1,930	2,518	1,387	1,907	8,510	6,871		5,441
<i>Diluted per Unit ..</i>	<i>15.5¢</i>	<i>10.8¢</i>	<i>35.2¢</i>	<i>13.1¢</i>	<i>18.8¢</i>	<i>24.6¢</i>	<i>13.5¢</i>	<i>18.5¢</i>	<i>\$0.830</i>	<i>\$0.670</i>		<i>\$0.530</i>
Balance Sheet Data:												
Total assets.....	162,611	166,019	157,266	168,715	154,475	169,658			154,791	162,819		163,404
Bank debt.....	37,078	30,237	34,739	32,070	33,538	37,920			35,027	37,052		25,673
Cash Flow Statement Data:												
Distributions.....	3,024	3,024	3,024	3,024	3,024	3,024	3,024	3,024	12,096	12,096		8,001
<i>Diluted per Unit ..</i>	<i>28.1¢</i>	<i>28.1¢</i>	<i>28.0¢</i>	<i>28.0¢</i>	<i>28.0¢</i>	<i>28.0¢</i>	<i>28.1¢</i>	<i>28.1¢</i>	<i>\$1.122</i>	<i>\$1.122</i>		<i>\$0.746</i>
Payout ratio ³	91%	102%	93%	94%	92%	94%	96%	85%	93%	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. The Fund's payout ratio of 93% for the 2006 year was consistent with the 2005 year and approximates 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 20% in Los Angeles and Portland. Comparatives for revenue and EBITDA¹ have been provided but not other expenses for the 12 months ended December 31, 2004, as the capital structure of the Fund was significantly different than that of Richards Packaging in the prior period, 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 amounts)

March 6, 2007

	Qtr. 1		Qtr. 2		Qtr. 3		Qtr. 4		12 months		Apr. 7 to Dec. 31	
	2006	2005	2006	2005	2006	2005	2006	2005 ^(d)	2006 ^(a)	2005 ^(a)	2004 ^(b)	2004 ^(a)
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Revenue	40,053	39,818	39,662	43,056	38,966	41,723	40,324	40,683	159,005	165,280	154,402	113,318
Cost	<u>33,366</u>	<u>34,512</u>	<u>33,023</u>	<u>36,871</u>	<u>32,066</u>	<u>35,608</u>	<u>33,546</u>	<u>33,969</u>	<u>132,001</u>	<u>140,960</u>	<u>132,387</u>	<u>96,922</u>
Gross profit.....	6,687	5,306	6,639	6,185	6,900	6,115	6,778	6,714	27,004	24,320	22,015	16,396
	16.7%	13.3%	16.7%	14.4%	17.7%	14.7%	16.8%	16.5%	17.0%	14.7%	14.3%	14.5%
Expenses.....	2,288	2,299	2,236	2,344	2,230	2,352	2,347	2,258	9,101	9,253	7,926	5,871
LTIP ^(c)	33	—	33	47	32	23	32	26	130	96	—	—
FX ^(c)	4	(23)	(38)	(72)	1	(69)	—	(90)	(33)	(254)	(449)	(449)
EBITDA ¹	4,362	3,030	4,408	3,866	4,637	3,809	4,399	4,520	17,806	15,225	14,538	10,974
	10.9%	7.6%	11.1%	9.0%	11.9%	9.1%	10.9%	11.1%	11.2%	9.2%	9.4%	9.7%
Amortization.....	2,116	2,003	2,123	2,022	2,116	2,113	2,075	2,262	8,430	8,400		7,127
Interest.....	662	429	839	558	796	652	748	673	3,045	2,312		1,154
UFI ^(c)	209	80	(1,502)	394	9	(1,877)	1,499	226	215	(1,177)		(2,190)
Income tax	(293)	(645)	(843)	(517)	(312)	274	(1,381)	(645)	(2,829)	(1,533)		(802)
NCI ^(c)	81	57	185	69	98	129	71	97	435	352		244
Net Income	<u>1,587</u>	<u>1,106</u>	<u>3,606</u>	<u>1,340</u>	<u>1,930</u>	<u>2,518</u>	<u>1,387</u>	<u>1,907</u>	<u>8,510</u>	<u>6,871</u>		<u>5,441</u>

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 currency losses/(gains) from operations, UFI=unrealized losses/(gains) on financial instruments, NCI=non-controlling interests.

d) Gross profit includes \$514 for reversal of annual accruals.

Revenue decreased by \$0.4 million, or 0.9%, for the fourth quarter, and by \$6.3 million, or 3.8%, for the 2006 year (2005 - increased \$10.9 million, or 7.1%), from the same periods in 2005, respectively. During the fourth quarter, organic growth of \$1.6 million, or 4.1% fully offset the impacts of exit from non-strategic customers and the Omaha agency, with the overall decrease mainly attributable to the \$0.5 million translation impact of Richards US with the Canadian dollar strengthening by 2.6¢ to U.S./Cdn.\$0.878. For the 2006 year, organic growth of \$1.4 million, or 0.9% (2005 - \$2.3 million, or 1.7%), was more than offset by the \$1.5 million sales mix transition program to a higher concentration of higher margin strategic products (2005 - \$0.7 million), the departure of the Omaha agency for \$1.9 million (2005 - increase acquisitions \$12.0 million) and the \$4.3 million translation impact of Richards US with the Canadian dollar strengthening by 5.6¢ to U.S./Cdn.\$0.882 (2005 - \$3.6 million).

The foreign translation impact for the fourth quarter was relatively low compared to the first three quarters and should turn positive, based upon the current exchange rates, beginning in the first quarter of 2007 by \$0.2 million for revenue and \$0.1 million for gross profit⁵. 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 annum⁵. 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.

Richards Packaging Income Fund

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

March 6, 2007

Cost of products sold decreased by \$0.4 million for the fourth quarter, or 1.2%, and by \$9.0 million for the 2006 year, or 6.4% (2005 - increased \$8.6 million, or 6.5%), from the same periods in 2005, respectively. Synergies achieved from the integration of the acquisitions resulted in lower selling and distribution costs, resulting in gross margin increases of 0.3% during the fourth quarter and 2.3% for the 2006 year (2005 - 0.4%), from the same periods in 2005, respectively.

The fourth quarter gross margins in the 2005 year increased by an additional \$0.5 million or 1.2% due to the reversal of annual estimates booked in the first three quarters of the 2005 year. 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 for 2005 by approximately \$0.2 million.

General and administrative expenses increased \$0.1 million for the fourth quarter and decreased \$0.2 million for the 2006 year (2005 - increased \$1.3 million), over the same periods in 2005, 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.

EBITDA¹ increased by \$0.4 million, net of the \$0.5 million accrual reversal, for the fourth quarter and \$2.6 million for the 2006 year (2005 - \$0.7 million), over the same periods in 2005, respectively. As a percent of sales, EBITDA was at 10.9% for the fourth quarter and 11.2% for the 2006 year (2005 - 9.2%). Changes were due to the factors outlined above. Also during the 2006 year, Richards Packaging realized a \$0.2 million lower foreign exchange gain from the internal hedging program on cross-border 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 Dispill acquisition; unrealized foreign exchange gains on translation of long-term debt, which reflects the movement in the exchange rate and unrealized losses on financial instruments. The only cash item in other expenses is the interest paid by Richards Packaging.

Amortization of \$2.1 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 \$0.1 million that will continue for the remainder of the three-year term of the debt facilities and capital asset amortization of \$0.6 million per quarter, which is approximately three times Richards Packaging's maintenance capital expenditure spending requirement.

The term loan outstanding at December 31, 2006 totaled U.S.\$30.0 million, which gave rise to the unrealized foreign currency translation loss in the quarter of \$1.5 million. Unrealized foreign currency losses for the year were negligible as on December 31, 2005 the exchange rate was U.S./Cdn.\$0.858, while during the period it increased as high as U.S./Cdn.\$0.907 and closed on December 31, 2006 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 future⁵.

Current income taxes for the 2006 year reflect the tax deductions inherent in distributions to unitholders. The \$0.8 million of current income tax leakage is predominately for Richards US. Net future tax assets available to shield income taxes are \$3.3 million, which include \$2.1 million of initial public offering and financing fees and a loss carry

Richards Packaging Income Fund

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

March 6, 2007

forward of \$2.0 million offset by \$0.3 million of unrealized gains on financial instruments and \$0.5 million of capital assets.

Net income for the fourth quarter was \$1.4 million, and for the 2006 year was \$8.5 million, which represented 13.5¢ and 83.0¢ 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 year.

Distributable Cash Flow

	Qtr. 1		Qtr. 2		Qtr. 3		Qtr. 4		12 months		Apr. 7 to
	2006	2005	2006	2005	2006	2005	2006	2005 ^{b)}	2006 ^{a)}	2005 ^{a)}	Dec. 31
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Cash provided by (used in)											
operating activities	3,569	(3,267)	5,814	3,182	5,390	1,446	3,261	4,282	18,034	5,643	11,881
Working capital changes	(25)	6,127	(2,367)	173	(1,805)	1,535	107	(1,047)	(4,090)	6,788	(2,347)
Non-cash charges	818	170	961	511	1,052	828	1,031	1,285	3,862	2,794	1,440
EBITDA¹	4,362	3,030	4,408	3,866	4,637	3,809	4,399	4,520	17,806	15,225	10,974
Interest	662	429	839	558	796	652	748	673	3,045	2,312	1,154
Cash income taxes	156	(510)	122	(138)	256	(193)	283	129	817	(712)	411
Maintenance capital	201	107	195	225	291	126	197	141	884	599	548
Loan payments	10	25	10	11	10	10	10	10	40	56	46
Distributable cash flow²	3,333	2,979	3,242	3,210	3,284	3,214	3,161	3,567	13,020	12,970	8,815
<i>Diluted per Unit</i>	<i>30.9¢</i>	<i>27.6¢</i>	<i>30.1¢</i>	<i>29.8¢</i>	<i>30.5¢</i>	<i>29.8¢</i>	<i>29.3¢</i>	<i>33.1¢</i>	<i>\$1.208</i>	<i>\$1.203</i>	<i>\$0.822</i>
Distributions	3,024	3,024	3,024	3,024	3,024	3,024	3,024	3,024	12,096	12,096	8,001
<i>Diluted per Unit</i>	<i>28.1¢</i>	<i>28.1¢</i>	<i>28.0¢</i>	<i>28.0¢</i>	<i>28.0¢</i>	<i>28.0¢</i>	<i>28.1¢</i>	<i>28.1¢</i>	<i>\$1.122</i>	<i>\$1.122</i>	<i>\$0.746</i>
Payout ratio ³	91%	102%	93%	94%	92%	94%	96%	85%	93%	93%	91%
Units outstanding on a											
diluted basis	10,781	10,781	10,781	10,781	10,781	10,781	10,781	10,781	10,781	10,781	10,720

a) Amounts are derived from the audited consolidated financial statements.

b) Working capital changes include \$514 for reversal of annual accruals (see Review of Operations).

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 \$5.0 million revolving facility available to Richards Packaging (nil drawn; 2005 - \$2.2 million). 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.\$7.0 million acquisition facility (nil drawn; 2005 - U.S.\$11.6 million).

Distributable cash flow² for the fourth quarter at \$3.2 million was at approximately the same level as the previous three quarters and consistent with the same period in 2005 (net of the \$0.5 million accrual reversal). Maintenance capital expenditures were at target for the fourth quarter and management continues to believe that the annual target of \$0.75 million is appropriate⁵.

Richards Packaging Income Fund

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

March 6, 2007

The distribution for the 2006 and 2005 years 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 2006 year, 81% of the distributions will represent interest on the subordinated note held by the Fund and 19% 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 down by \$1.0 million for the fourth quarter and up by \$12.4 million for the 2006 year (2005 – down \$6.2 million). Most of the increase for the 2006 year was the result of working capital improvement program. The additional cash flow of \$0.9 million derived from working capital reductions 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, therefore we follow their lead and lower working capital during the holiday season.

The financial structure of the Fund allows for maximum distributions of cash flow from operations to the unitholders and shareholders as outlined above in the distributable cash discussion. Actual distributions and dividends paid during the 2006 year were \$12.1 million with an additional \$1.0 million declared for December, which was paid January 15th.

Cash income taxes

The cash income tax expense for the 2006 year was \$0.8 million (2005 - \$0.7 million recovery) predominately made up of payments by Richards US. For the 2005 year, \$1.1 million represented refunds from the April 7, 2004 income tax returns being offset by \$0.4 million of income tax payments for Richards US.

Capital expenditures

Capital expenditures for the 2006 year were \$0.9 million, all incurred on account of maintenance capital (2005 - \$0.6 million maintenance and \$1.2 million expansion capital). Expenditures classified as maintenance capital are mainly comprised of refurbishment of or new moulds for replacement packaging driven by customer marketing programs. Expansion capital in the 2005 year was deployed for a new machine in the Tacoma plant and the associated moulds.

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 expansion and up to U.S.\$7.0 million for expansion capital and/or acquisition financing. During the 2006 year, the U.S.\$11.6 million drawn under the acquisition facility was refinanced and added to the term facility and \$2.2 million of revolving debt was repaid. During the 2005 year, \$3.2 million of the revolving credit facility was drawn, \$1.0 million was repaid in the fourth quarter, and a repayment of the loans due to officers was made totaling \$0.6 million.

Richards Packaging Income Fund

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

March 6, 2007

The revolving debt and acquisition facilities are annual in nature and will be up for renewal on June 4, 2007. Management is confident that these facilities will be renewed with the current lending syndicate. Combined with cash flow from operations, management believes that adequate financing will be available for the foreseeable future⁵.

Approximately 27% of distributable cash flow² for the 2006 year was provided by Richards US (2005 – 23%). 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 2006 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 had 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 U.S.\$18.2 million. The unwinding of the fair value of the interest rate swap contract as at December 31, 2005 gave rise to a loss of \$0.2 million during the 2006 year. Management continues to monitor interest rates and will execute a swap when it deems appropriate to do so.

Commitments and contractual obligations

	Total	< 1 year	1-3 years	4-5 years	Thereafter
	\$	\$	\$	\$	\$
Bank debt	35,027	40	34,987	—	—
Patents and trademarks.....	400	200	200	—	—
Annual bonus plans.....	801	653	148	—	—
Operating leases	8,108	2,855	4,153	578	522
	44,336	3,748	39,488	578	522

A potential competitor has filed an action against Richards Packaging to establish that a product they launched in July 2006 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 fails, there could be a positive effect on profitability in the future.

Outlook⁵

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 Fund realized a \$2.6 million EBITDA¹ improvement from acquisition integration and improvements in its baseline operations. Management will continue to focus its attention on achieving operational improvements during 2007 and will re-launch its acquisition strategy. This acquisition strategy is expected to result in a compounded growth rate in distributable cash flow² in excess of 7.5% in order to allow the Fund to maintain distributions for 2011 and beyond at the current levels.

Richards Packaging Income Fund

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

March 6, 2007

The cash income tax expense is expected to remain at the 2006 level of \$0.8 million. Based upon Richards Canada's current tax profile we expect to have approximately \$2 million of loss carry forwards which will fully shield taxes in 2011. However, in 2011 the new 31.5% tax on distributions, net of return of capital, will take effect if current proposed legislation passes.

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

Investment in Units involves risks inherent in the ordinary course of business of Richards Packaging including: sustainability of customer and supplier relationships, financial stability of customers, lack of written customer and supplier agreements, competition from other packaging companies, patent and trademark challenges, inventory obsolescence, trade risks, resin price and exchange rate fluctuations, interest rate volatility 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 2006 Annual Information Form dated March 6, 2007.

Growth through acquisition

Richards Packaging's business strategy contemplates growth through strategic acquisitions similar in nature to those completed during 2004 and 2005. 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

During 2006, the Federal Minister of Finance announced proposed changes that may significantly affect the taxation of the Fund beginning in 2011. The proposed changes will result in a two-tiered tax structure similar to that of

Richards Packaging Income Fund

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

March 6, 2007

corporations whereby the taxable portion of distributions would be subject to income tax payable by the Fund at a rate of 31.5%, and such distributions will be treated as if they were dividends to the unitholders. However these tax changes would take immediate effect if the Fund were to grow, through the issuance of units and/or convertible debt, in excess of \$50 million per year. There is no assurance that these changes will be enacted in the manner proposed.

Richards Canada'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 our treatment of these note indentures as debt, in which case the associated interest would no longer be deductible.

Transactions with Related Parties

Richards Packaging leased four of its facilities in 2006 from various former owners of Richards Packaging, or a subsequently acquired company, who are currently officers or unitholders. Two of these facilities are currently not owned by such officers. Some of the same officers provided loans associated with the sales of their companies, which were repaid during the 2005 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 6, 2007, the Fund had 10,256,327 Units and Holdings had 524,685 exchangeable shares outstanding, respectively. See notes 9 and 10 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, 2006 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, management believes the allowance as at December 31, 2006 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 Income Fund

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

March 6, 2007

management believes the obsolescence provision is adequate to cover the risks inherent in the inventory on hand as at December 31, 2006.

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 \$4.1 million as of December 31, 2005 and \$0.3 million as of December 31, 2006 pertaining to Dispill. These non-cash assets, and the associated \$14.8 million future income tax liabilities as at December 31, 2006, will be amortized to income over 10 to 12 years. It should be noted that although these items affect the net income recorded by the Fund, they do not impact distributable cash 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, 2006 management evaluated goodwill for possible impairment and determined its fair value exceeds the carrying amount.

New Accounting Pronouncements

The following are a number of recently issued accounting standards that may affect the Fund in the quarter ending March 31, 2007. The Fund is currently evaluating the above standards and cannot reasonably determine the effect at this time.

Financial Instruments – Recognition and Measurement

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

Hedges

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

Comprehensive Income

This new pronouncement introduces new standards for the reporting and display of comprehensive income. Comprehensive income is the change in equity (net assets) of an enterprise during a reporting period from transactions

Richards Packaging Income Fund

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

March 6, 2007

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.

Disclosure Controls and Internal Controls over Financial Reporting

The Fund has established and maintains disclosure controls and procedures as well as internal controls over financial reporting. Richards Packaging Inc.'s Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of the disclosure controls and procedures as well as the design of internal controls over financial reporting as of December 31, 2006 and have concluded that such controls and procedures are adequate and effective. There have been no changes in the Fund's internal controls over financial reporting during the quarter ended December 31, 2006 that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting.

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 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*

Richards Packaging Income Fund

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

March 6, 2007

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 Management defines EV as enterprise value. The private equity standard multiple of EBITDA is 8 in the North American packaging industry. EV does not have a standardized meaning prescribed by GAAP and therefore the Fund's method of calculating EV may not be comparable to similar measures presented by other companies or income trusts.*
- 5 The Report to unitholders and this MD&A contains forward-looking information within the meaning of applicable securities laws. The forward-looking information reflects management's current beliefs and expectations regarding the future growth, results of operations, performance and business prospects and opportunities of the Fund and Richards Packaging. We use words such as "may", "will", "should", "anticipate", "plan", "expect", "believe", "predict", "estimate" and similar terminology to identify forward-looking information. It is based on assumptions, estimates and analysis made by us in light of our experience and our perception of trends, current conditions and expected developments, as well as other factors we believe to be reasonable and relevant in the circumstances. Forward-looking information involves significant known and unknown risks, uncertainties and other factors which may cause our actual results, performance or achievements to be materially different from those predicted, expressed or implied by the forward-looking information. The risks and uncertainties include, among other things, changes in customer and supplier relationships and the impact on order volumes and pricing, competition in the industry, inventory obsolescence, trade risks in respect of foreign suppliers, the ability to finance additional acquisitions and to successfully integrate the acquired businesses, fluctuations in raw material prices, fluctuations in foreign exchange and interest rates, liability claims, reliance on key personnel, compliance with environmental, trade and other laws, changes to applicable tax laws, as well as other risks and uncertainties, as more fully described herein under "Risks and Uncertainties" and in other reports and filings made by us with securities regulatory authorities and available at www.sedar.com. While management believes that the expectations expressed and the assumptions underlying same are reasonable, there can be no assurance that such expectations and assumptions will prove to be correct. In evaluating forward-looking information, readers should carefully consider the various factors which could cause actual results or events to differ materially from those indicated in the forward-looking information. Neither the Fund nor Richards Packaging assumes any obligation to publicly update or revise any such assumptions or any of the forward-looking information contained herein to reflect subsequent information, events, developments or changes in risk factors.*

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 6, 2007.

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
Richards Packaging Inc.

"Enzio Di Gennaro"

Chief Financial Officer
Richards Packaging Inc.

Toronto, Ontario
March 6, 2007

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, 2006 and 2005 and the consolidated statements of income and deficit and cash flows for the years then ended. 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, 2006 and 2005 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Toronto, Canada
February 23, 2007.

(Signed) Ernst & Young LLP
Chartered Accountants

Richards Packaging Income Fund

CONSOLIDATED BALANCE SHEETS

[expressed in thousands of dollars]

As at December 31

	2006	2005
	\$	\$
ASSETS <i>[note 7]</i>		
Current		
Cash and cash equivalents	1,858	479
Accounts receivable	21,127	23,367
Inventory	24,175	24,440
Prepaid expenses	971	1,078
Income taxes recoverable	54	43
Future income tax assets <i>[note 11]</i>	487	360
Total current assets	48,672	49,767
Capital assets, net <i>[note 4]</i>	4,903	6,221
Deferred financing fees, net	380	808
Intangible assets, net <i>[note 5]</i>	43,087	48,489
Future income tax assets <i>[note 11]</i>	473	245
Goodwill <i>[notes 1, 3 and 6]</i>	57,276	57,289
	154,791	162,819
LIABILITIES AND UNITHOLDERS' EQUITY		
Current		
Bank indebtedness	—	1,312
Accounts payable and accrued liabilities	19,288	17,849
Income taxes payable	435	186
Distributions payable to unitholders <i>[note 10]</i>	959	959
Dividends payable to exchangeable shareholders <i>[note 9]</i>	49	49
Short-term debt and current portion of long-term debt <i>[note 7]</i>	40	15,765
Total current liabilities	20,771	36,120
Long-term debt <i>[note 7]</i>	34,987	21,287
Future income tax liabilities <i>[note 11]</i>	12,341	15,632
Total liabilities	68,099	73,039
Non-controlling interests <i>[note 9]</i>	4,291	4,442
Commitments and contingencies <i>[note 8]</i>		
Unitholders' equity		
Units <i>[note 10]</i>	95,772	95,772
Deficit	(9,843)	(6,845)
Cumulative translation adjustment <i>[note 12]</i>	(3,528)	(3,589)
Total unitholders' equity	82,401	85,338
	154,791	162,819

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

“Wayne McLeod”
Chair – Audit Committee

“Gerry Glynn”
CEO – Richards Packaging Inc.

“Enzio Di Gennaro”
CFO – Richards Packaging Inc.

Richards Packaging Income Fund

CONSOLIDATED STATEMENTS OF INCOME AND DEFICIT

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

For the years ended December 31

	2006	2005
	\$	\$
Revenue	159,005	165,280
Cost of products sold	132,001	140,960
	27,004	24,320
General and administrative expenses	9,101	9,253
Foreign currency gain from operations <i>[note 15]</i>	(33)	(254)
Long-term incentive plan <i>[note 10]</i>	130	96
Income before under noted items, income taxes and non-controlling interests	17,806	15,225
Amortization		
Capital assets <i>[note 4]</i>	2,189	2,386
Intangible assets <i>[note 5]</i>	5,732	5,344
Deferred financing fees	509	670
Interest expense <i>[note 7]</i>	3,045	2,312
Unrealized losses (gains) on financial instruments <i>[note 15]</i>		
Interest rate swap contracts	222	15
Foreign currency forward agreement	—	151
Foreign currency translation of short- and long-term debt	(7)	(1,343)
Income before income taxes and non-controlling interests	6,116	5,690
Provision for (recovery of) income taxes <i>[note 11]</i>		
Current	817	482
Future	(3,646)	(2,015)
	(2,829)	(1,533)
Income before non-controlling interests	8,945	7,223
Non-controlling interests <i>[note 9]</i>	435	352
Net income for the year	8,510	6,871
Deficit, beginning of year	(6,845)	(2,208)
Distributions declared to unitholders <i>[note 10]</i>	(11,508)	(11,508)
Deficit, end of year	(9,843)	(6,845)
Basic and diluted income per Unit	\$0.830	\$0.670
Weighted average number of Units outstanding		
Basic	10,256,327	10,256,327
Diluted	10,781,012	10,781,012

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 years ended December 31

	2006	2005
	\$	\$
OPERATING ACTIVITIES		
Net income for the year	8,510	6,871
Add (deduct) items not involving cash		
Amortization	8,430	8,400
Future income taxes	(3,646)	(2,015)
Non-controlling interests	435	352
Unrealized losses on financial instruments	222	166
Unrealized foreign currency gain on short- and long-term debt	(7)	(1,343)
	13,944	12,431
Net change in non-cash operating elements of working capital [note 16]	4,090	(6,788)
Cash provided by operating activities	18,034	5,643
INVESTING ACTIVITIES		
Additions to capital assets	(884)	(1,848)
Expenditures on patents and trademarks	(330)	(131)
Acquisition, net of cash acquired of \$272 [note 3]	—	(7,242)
Cash used in investing activities	(1,214)	(9,221)
FINANCING ACTIVITIES		
Increase (decrease) in bank indebtedness	(1,312)	1,312
Proceeds from short- and long-term debt, net	94	13,722
Repayment of short-term debt	(2,200)	(1,000)
Repayment of due to officers	—	(644)
Dividends paid to exchangeable shareholders	(589)	(585)
Distributions paid to unitholders	(11,508)	(11,425)
Cash provided by (used in) financing activities	(15,515)	1,380
Foreign currency gain (loss)	74	(830)
Net increase (decrease) in cash and cash equivalents	1,379	(3,028)
Cash and cash equivalents, beginning of year	479	3,507
Cash and cash equivalents, end of year	1,858	479

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

Richards Packaging Income Fund

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

December 31, 2006

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 exchangeable shares of Richards Packaging Holdings Inc. were issued to officers for the remaining 4% of the outstanding shares of Richards Packaging Inc. These shares are reflected as non-controlling interests.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The significant accounting policies are summarized as follows:

Principles of consolidation

The consolidated financial statements include the accounts of the Fund, 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 non-controlling interests in Holdings is 4.87%. 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 & bank indebtedness

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. Bank indebtedness represents issued and outstanding cheques which have not yet been applied to the revolving credit facility. Cash balances with the right of offset are netted against bank indebtedness.

Richards Packaging Income Fund

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

December 31, 2006

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 lease term

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. Costs for patents and trademarks also include legal defense expenditures. Customer relationships and contracts are amortized over 10 years, patents over 12 years and trademarks over 11 years.

Goodwill

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

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

Richards Packaging Income Fund

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

December 31, 2006

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.

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.

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 Richards Packaging is eligible to participate in the Fund's long-term incentive plan. 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 currencies have been translated into Canadian dollars. Monetary items are recorded at exchange rates in effect at the consolidated balance sheet dates 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 year, except for amortization, which is translated at rates prevailing when the related assets were acquired. Gains and losses arising from foreign currency translations 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 dates. Revenue and expenses, including amortization, are translated at average exchange rates prevailing during the year. Any resulting gains or losses are included in unitholders' equity as a cumulative translation adjustment.

Richards Packaging Income Fund

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

December 31, 2006

Derivative financial instruments

Derivative financial instruments are utilized from time to time to reduce foreign currency and interest rate risks 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 year recognized in income.

Use of estimates

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

3. ACQUISITION

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 7]. The necessary steps were taken to combine Dispill effective July 29, 2005 within the legal structure of the Fund's subsidiary.

This acquisition has been accounted for by the purchase method. Consequently, the results of operations and cash flows are included in these consolidated financial statements from the effective date of acquisition. The allocation of the purchase price is outlined below:

	\$		\$
Current assets	1,060	Current liabilities	424
Capital assets	69	Future income tax liabilities	2,283
Patents and trademarks	4,030		
Customer relationships and contracts	2,300		
Total assets acquired	7,459	Total liabilities assumed	2,707
Fair value of net assets acquired			4,752
Goodwill [note 6]			2,762
Purchase price			7,514

Richards Packaging Income Fund

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

December 31, 2006

4. CAPITAL ASSETS

	Cost	Accumulated amortization	Net book value	
	\$	\$	2006	2005
			\$	\$
Manufacturing equipment	4,373	2,855	1,518	2,281
Moulds	3,363	1,847	1,516	1,760
Computer equipment	722	323	399	353
Computer software and systems implementation	1,478	608	870	1,153
Warehouse and office equipment	888	383	505	570
Leasehold improvements	174	79	95	104
	10,998	6,095	4,903	6,221

5. INTANGIBLE ASSETS

	Cost	Accumulated amortization	Net book value	
	\$	\$	2006	2005
			\$	\$
Customer relationships and contracts	53,300	14,188	39,112	44,472
Patents and trademarks	4,491	516	3,975	4,017
	57,791	14,704	43,087	48,489

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

6. GOODWILL

Changes in the carrying amounts of goodwill are as follows:

	2006	2005
	\$	\$
Goodwill, beginning of year	57,289	55,104
Acquired on acquisitions during the year	—	2,762
Foreign currency translation loss	(13)	(577)
Goodwill, end of year	57,276	57,289

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

Richards Packaging Income Fund

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

December 31, 2006

7. SHORT- AND LONG-TERM DEBT

The term, revolving and acquisition credit lines were refinanced on May 12, 2006. Fees associated with the refinancing of the term credit line are deferred and amortized over the three-year term of these facilities. Credit facilities available to the Fund are outlined below:

Debt facility	Due date	Interest rate	Outstanding balance		Total facilities
			2006	2005	
			\$	\$	\$
Revolving credit	June 4, 2007	See [i] below	—	2,200	5,000
Acquisition credit	June 4, 2007	See [ii] below	—	13,525	8,157
Term loan	See [iii] below	See [iii] below	40	40	40
Short-term debt and current portion of long-term debt			40	15,765	13,197
Term loan	June 5, 2009	See [iv] below	34,959	21,219	34,959
Term loan	See [iii] below	See [iii] below	28	68	28
Long-term debt			34,987	21,287	34,987

[i] The revolving credit facility consists of a Canadian operating line of credit of \$5,000 [2005 – \$7,000] bearing interest at the prime rate plus a premium of 0.4% to 1.0%. The effective interest rate at December 31, 2006 is 7.2% [2005 – 6.7%].

[ii] The acquisition credit facility consists of a line of credit of U.S.\$7,000 [2005 – U.S.\$12,000] bearing interest at LIBOR plus a premium of 1.4% to 2.0%. The effective interest rate at December 31, 2006 is 6.9% [2005 – 6.3%].

[iii] The outstanding balance consists of a term loan of \$68 [2005 – \$108] bearing interest at the prime rate plus 0.75% with monthly principal repayments of \$3. The term loan matures on August 5, 2008. The effective interest rate at December 31, 2006 is 6.5% [2005 – 5.2%].

[iv] The term loan consists of a U.S.\$30,000 loan [2005 – U.S.\$18,200] bearing interest at LIBOR plus a premium of 1.4% to 2.0%. The effective interest rate at December 31, 2006 is 6.6% [2005 – 5.0% subject to a fixed rate swap].

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, 2006 is comprised as follows: term loan, revolving credit and acquisition credit interest of \$2,508 [2005 – \$1,837], credit card commission charges of \$264 [2005 – \$265] and credit facility charges of \$273 [2005 – \$210].

Richards Packaging Income Fund

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

December 31, 2006

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.\$30,000 term loan. The term loan noted in [iii] above is secured by a first charge on all of Vision's assets.

8. 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
	\$	\$	\$
2007	406	2,449	2,855
2008	344	2,168	2,512
2009	25	1,616	1,641
2010	—	375	375
2011	—	203	203
Thereafter	—	522	522

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 these matters will not have a material adverse effect on the financial position or operating results of the Fund.

9. 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.

	Number of shares	Dividends per share	Deficit \$	\$
Balance, December 31, 2004	524,685			4,731
Allocation of cumulative translation adjustment				(52)
Share of income			352	
Dividends		\$1.122	(589)	(237)
Balance, December 31, 2005	524,685			4,442
Allocation of cumulative translation adjustment				3
Share of income			435	
Dividends		\$1.122	(589)	(154)
Balance, December 31, 2006	524,685			4,291

Richards Packaging Income Fund

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

December 31, 2006

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.

10. 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

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, 2006 were \$959 [2005 – \$959] or \$0.0935 per Unit [2005 – \$0.0935 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 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:

Richards Packaging Income Fund

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

December 31, 2006

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, 2006, \$130 of compensation expense was recognized [2005 – \$96].

11. INCOME TAXES

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

	2006 \$	2005 \$
Income before income taxes and non-controlling interests	6,116	5,690
Distributions to unitholders, not subject to income taxes in the Fund	(9,721)	(9,656)
Loss subject to income taxes	(3,605)	(3,966)
Statutory tax rate	36.1%	36.1%
Recovery of income taxes at statutory tax rate	(1,302)	(1,432)
Adjustments to income taxes		
Temporary differences		
Unrealized losses (gains) on financial instruments	347	(183)
Equity placement fees	(629)	(642)
Penalty on discharge of debt	(163)	(189)
Intangible assets	2,898	2,002
Loss for income taxes not utilized	693	832
Amortization	191	110
Working capital	127	—
Other temporary differences	182	85
Current period adjustments		
Change in enacted tax rates	(877)	—
Foreign currency loss (gain) on translation of long-term-debt	1	(238)
Withholding tax on dividends and fees from Richards US	137	141
Loss for income taxes (recognized) not recognized	(880)	38
Other items	92	(42)
Current income taxes	817	482
Recovery of future income taxes	(3,646)	(2,015)

Richards Packaging Income Fund

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

December 31, 2006

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

	2006	2005
	\$	\$
Future income tax assets – current		
Working capital	487	360
Future income tax assets – long-term		
Capital assets	(1)	(43)
Customer relationships and contracts	(416)	(500)
Equity placement fees	532	796
Loss for income taxes not utilized	308	—
Other	50	(8)
	473	245
Future income tax liabilities – long term		
Capital assets	512	661
Customer relationships and contracts	13,156	15,793
Equity placement fees	(706)	(1,071)
Loss for income taxes not utilized	(1,708)	(1,323)
Unrealized gains on financial instruments	281	628
Patents and trademarks	1,213	1,390
Other	(407)	(446)
	12,341	15,632

In addition to the equity placement fees accounted for above, the Fund has approximately \$916 of fees available to be deducted over the next three years [2005 – \$1,320]. The \$1,918 of non-capital losses not recognized for the year ended December 31, 2005 were realized during the year ended December 31, 2006 as \$384 of future income taxes and \$96 of current income taxes. The reversal of the patents and trademarks and customer relationships and contracts accounts above will not give rise to income taxes payable.

On October 31, 2006, the Federal Minister of Finance announced proposed changes that may significantly affect the taxation of income trusts, including the Fund. The proposed new law will result in a two-tiered tax structure similar to that of corporations whereby the taxable portion of distributions would be subject to income tax payable by the Fund at a rate of 31.5%, and such distributions will be treated as if they were dividends paid by a Canadian corporation. The application of the tax proposals will be delayed to 2011 with respect to the Fund. There is no assurance that the draft legislation will be enacted in the manner proposed, or at all, therefore the impact on the valuation of future income tax assets and liabilities will not be reflected until such changes are enacted into law.

Richards Packaging Income Fund

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

December 31, 2006

On December 15, 2006, the Federal Minister of Finance released additional guidance for income trusts which establishes objective tests with respect to permitted growth, through the issuance of units and/or convertible debt, without jeopardizing their transitional relief through to 2011. The growth limit that applies for the Fund is \$50 million per year. If this limit is exceeded, the Fund may become immediately subject to the proposed tax.

The Fund's structure involves inter-company debt, generating interest expense, which serves to reduce income and therefore income taxes payable in the United States. Richards US claimed interest deductions with respect to the U.S. Notes [the "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 \$1,371 for the year ended December 31, 2006 [2005 – \$1,464], 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 2006 would be approximately \$521, or \$0.048 per Unit, on a diluted basis [2005 – \$586, or \$0.054 per Unit].

12. CUMULATIVE TRANSLATION ADJUSTMENT

The cumulative translation adjustment represents the effect of exchange rate variations on the translation of the Fund's net investment in Richards US, a self-sustaining foreign operation. The unrealized translation gain of \$61 during the year ended December 31, 2006 resulted from the changes in the underlying net investment offset by the slight strengthening of the Canadian dollar against the U.S. dollar [2005 – loss of \$1,018].

13. RELATED PARTY TRANSACTIONS

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

	2006	2005
	\$	\$
Four leases of facilities from certain officers and their related entities	605	584
Product purchases from Vision <i>[note 14]</i>	8,428	8,262

Richards Packaging Income Fund

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

December 31, 2006

14. 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:

	2006	2005		2006	2005
	\$	\$		\$	\$
Balance sheet					
Assets			Liabilities		
Current assets	1,443	1,673	Current liabilities	398	468
Capital assets	1,181	1,454	Long-term debt	136	218
			Future income taxes	60	79
Total assets	2,624	3,127	Total liabilities	594	765
Statement of income					
Revenue				8,428	8,262
Expenses				8,696	8,374
Net loss				(268)	(112)
				2006	2005
				\$	\$
Additional information					
Cash provided by operating activities				64	622
Cash used in investing activities				183	160
Cash used in financing activities				82	112

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

15. 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.

The fair value of short- and long-term debt approximates the carrying value as these financial instruments bear interest at rates comparable to current market rates.

Richards Packaging Income Fund

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

December 31, 2006

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, 2006, one customer represented 10.9% of accounts receivable [2005 – nil] and no customer represented 10% or more of the sales [2005 – nil]. 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 loan are dependent on either LIBOR or the bank's prime rate. The Fund had 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 U.S.\$18,200. 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 time to time.

Foreign currency 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 gain of \$33 from operations has been recorded for the year ended December 31, 2006 [2005 – \$254].

A foreign currency gain of \$7 from the translation of the U.S. dollar denominated short- and long-term debt has been recorded for the year ended December 31, 2006 [2005 – \$1,343]. The foreign currency gain is a result of the change in the U.S./Cdn. rate from \$1.1659 to \$1.1653 [2005 – \$1.2036 to \$1.1659].

16. CONSOLIDATED STATEMENTS OF CASH FLOWS

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

	2006	2005
	\$	\$
Accounts receivable	2,214	(1,645)
Inventory	194	(1,682)
Prepaid expenses	(103)	265
Accounts payable and accrued liabilities	1,530	(4,382)
Income taxes recoverable/payable	255	656
	4,090	(6,788)

Richards Packaging Income Fund

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

December 31, 2006

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

	2006	2005
	\$	\$
Interest paid	3,269	2,015
Income taxes recovered (paid)	(595)	95

17. SEGMENTED INFORMATION

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

	Canada		United States	
	2006	2005	2006	2005
	\$	\$	\$	\$
Revenue	110,322	107,734	48,683	57,546
Capital assets and goodwill	42,518	43,351	19,661	20,159

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

18. COMPARATIVE FINANCIAL STATEMENTS

Certain amounts in the comparative financial statements have been reclassified from statements previously presented to conform to the presentation of the 2006 consolidated financial statements.

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

Corporate Information

Head office

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

Auditors

Ernst & Young LLP
222 Bay Street, P.O. Box 251
Toronto, Ontario M5K 1J7

Transfer agent and registrar

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

Toronto Stock Exchange listing

Symbol : RPI.UN

Investor information

Investor information is available at
www.richardspackaging.com, SEDAR at
www.sedar.com and TSX at www.tsx.com

Annual meeting

Thursday May 24th at 2:00 p.m.
BCE Place
Bay/Wellington Tower
181 Bay Street, Suite 2500
Toronto, Ontario M5J 2T7