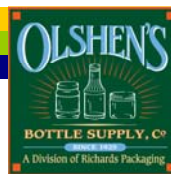


2011 Annual Report

Richards Packaging Income Fund

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Securigo



DISPILL



**Good Things
Come in**

**Richards
Packaging**



McKernan.
PACKAGING CLEARING HOUSE

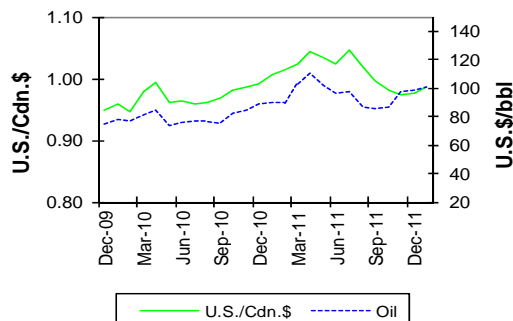
QUALITY DISCOUNT PACKAGING



INVESTMENT PROPOSITION

Financial Markets

- Global recession jobless recovery continued – packaging up 7% 2010 and 9% 2011
- Commodities stayed range-bound, most notably oil – FX and oil pricing gap maintained
- U.S./Cdn. exchange rate hovered around parity
- Short term borrowing rates remained at all time lows of 1%
- Mergers and acquisitions continue to be slow even in the face of low financing costs



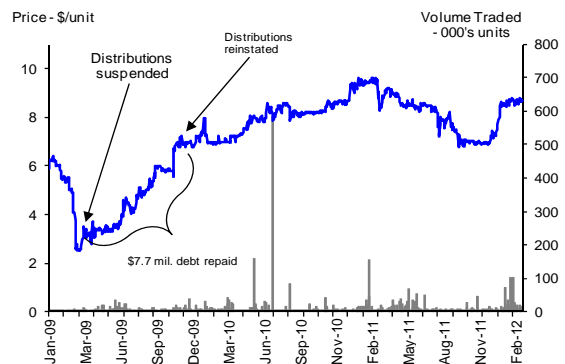
Distribution Policy

- Proforma reflects 2013 tax and 1.5% interest increase
- Tax shields of \$2 mil. available for 2012⁴ – delay conversion decision to a corp. until end of 2012
- Distributions for 2012 will be primarily return of capital reflecting loss carry forwards
- Monthly distributions of 6.55¢ per Unit
- Payout target of 80% reflects turbulent times

(\$ millions)	2011	Adj's	Proforma
EBITDA	19.5		19.5
Interest	(2.7)	(0.7)	(3.4)
Taxes	(1.1)	(2.4)	(3.5)
Maintenance capital	(0.7)		(0.7)
Future Distributable cash flow	15.0		11.9
Current distribution level	9.3		9.3
Payout Ratio	62%		78%

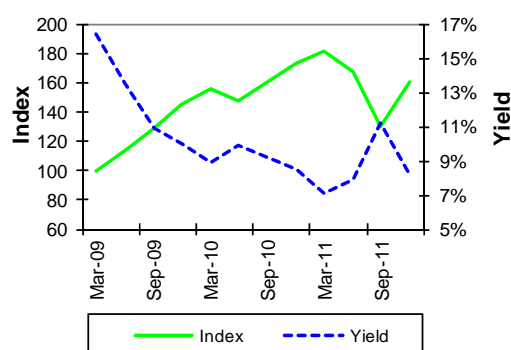
RPL.UN Trading Activity

- Fully recovered to pre-economic crisis levels
- FX drop of 13¢ in Q4/08 and 2¢ in Q1/09 reversing by 7¢ in Q2/09 and 6¢ in Q3/09
- Debt to EBITDA increased to 3.0 in Q1 2009 lowered to 2.2 in Q3 2009 and has remained
- Price above \$8 reflecting demand for high-yield securities and driving yield down to below 10%



High Yield Diversified Market

- March 2009 Price Index = 100
- Includes corporations and trusts not yet converting (IDS's, partnerships or have tax loss carry forwards)
- Yields widen to 16% during economic crisis – now at 9%
- Average price up 30% in last two quarters reflecting investor demand for yield



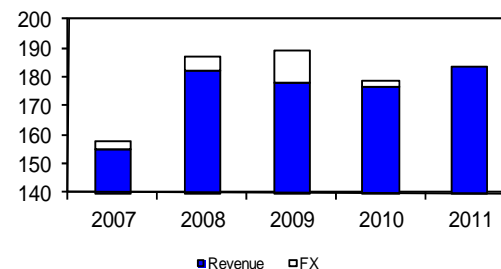
Richards Packaging Income Fund

PERFORMANCE SNAPSHOT

Revenue

- Organic growth \$6.8 mil. – concentration of top 60 customers shrinking to 35% from 37%
- Non-cash currency translation loss \$3.5 mil. at U.S./Cdn. \$1.01 (2010 – \$8.7 mil.); 2011 FX currency impact is \$1.0 mil.
- 1% plastic and 1% glass increases; 1% closures and 1% wine & spirits decreases

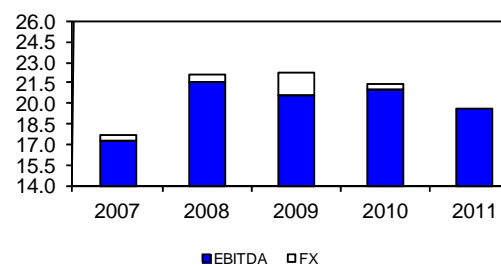
(\$ millions)



EBITDA¹

- EBITDA down \$1.9 mil. at 10.7% of sales
- Inventory \$1.2 mil. write-down (2010 – \$0.4 mil.)
- Profit improvement initiatives \$0.8 mil. staffing improvements (2010 – \$0.4 mil.)
- 2011 FX currency impact is \$0.1 mil.
- Expansion capital impact flat at \$0.1 mil.

(\$ millions)



Cash Management

- Free cash flow² reflects long term target cushion of 20% of distributable cash
 - Debt repayment 2011
 - Working capital 2010
 - Debt repayment 2009
- Debt – 2011 payments \$3.5 mil. (2009 – \$7 mil.)
- 2011 NCIB put on hold to repay debt due to reduced earnings; will recommence in 2012

(\$ millions)	2009	2010	2011
Free Cash Flow	10.4	6.3	5.8
Cash	1.7	1.0	3.9
Working Capital	33.6	37.6	39.7
<i>Current ratio</i>	2.6	2.9	2.8
<i>Inventory turns</i>	5.2	4.4	4.3
Expansion Capex	0.7	0.4	0.3
Debt	47.4	48.0	44.5
<i>Debt/EBITDA</i>	2.1	2.2	2.2
Units Purchased	0.3	0.5	—

Fourth Quarter Results

- Revenue growth 7% as the US economy begins to show signs of recovery
- Inventory write-down of \$1.0 mil.
- EBITDA drop of 0.6% reflects inventory write-down offset by organic growth
- Expenses down \$0.3 mil. on lower staffing and discretionary spending

(\$ millions)	2009	2010	2011
Revenue	46.0	41.9	44.9
EBITDA ¹	5.1	4.4	4.5
	11.1%	10.6%	10.0%
Payout Ratio ³	74%	71%	64%
Debt Repayment	1.0	—	1.5
Share Buyback	0.3	—	—

CEO'S REPORT TO UNITHOLDERS

December 31, 2011

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.

The 2011 results showed significant improvement in the back half as organic growth picked up and as foreign currency peaked in the third quarter. Revenue growth at \$3.3 million was mainly in the fourth quarter with the currency impact turning mildly positive. We experienced a \$2 million contraction with our top 60 customers as the higher freight costs and Canadian dollar hampered their ability to compete. Fully offsetting this setback was the higher growth rates in our larger small customer base which resulted in \$5 million of additional sales. EBITDA¹ was down by \$1.6 million due to inventory write downs of \$1.2 million and margin erosion caused by foreign exchange, ocean freight, and price degradation in select large accounts in response to increasing competitive threats. Net income was \$8.1 million, or \$0.64 per Unit, up \$1.6 million from the same period in 2010 which mainly reflects the mark-to-market gain on exchangeable shares.

Performance in the fourth quarter was unusually strong with organic revenue growth of 6.5%, in line with growth levels for the packaging industry. The remaining \$0.3 million revenue increase reflects the U.S./Cdn. 1¢ depreciation of the dollar. EBITDA¹ was up \$0.2 million as gross margins from higher revenue offset the \$1.0 million write down of inventory.

The focus for 2012 will be to continue to grow revenue by 3.0% as the economic recovery takes hold. The impact of currency is not expected to be a factor for the first time allowing the benefits of higher revenue to fall to the bottom line. Unfortunately, higher growth will necessitate working capital investments which cash flow from operations should be adequate to fund. Acquisitions still remain part of our strategic direction although locating compelling targets has proved challenging⁴.

Richards Packaging enters 2012 as a leading North American packaging distribution company with a clear business strategy, 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 continue to all be 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 7, 2012

Richards Packaging Income Fund

INDEPENDENT TRUSTEES' REPORT

December 31, 2011

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 certain wholly owned subsidiaries of Richards Packaging. 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, PricewaterhouseCoopers 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, set CEO 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 36% 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.

The Fund paid monthly distributions of 6.55¢ per Unit for the year, which represents an annualized yield of 10.5% on the December 31st closing price of \$7.50 per Unit. The payout ratio³ for the fourth quarter was 64% and 61% for the 2011 year with free cash flow mainly deployed in to pay down debt. Factors considered when setting this distribution level included the Income Trust tax beginning in 2011, the current low interest rates and the cash needs of operations. Due to tax loss carry forwards available, the distributions for 2011 were all return of capital.

On March 13, 2012, the Fund will reinstate a normal course issuer bid to purchase up to 200,000 Units prior to March 12, 2013.

“Don Wright”
Chairman

“Wayne McLeod”
Chair - audit committee

“Rami Younes”
Trustee

“Derek Ridout”
Chair – compensation &
Corporate governance committee

March 7, 2012

Richards Packaging Income Fund

MANAGEMENT'S DISCUSSION AND ANALYSIS

March 7, 2012

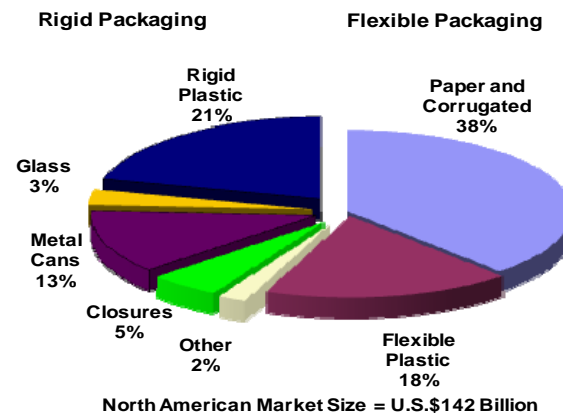
Cdn\$ thousands

This management's discussion and analysis of Richards Packaging Income Fund ("MD&A") for the 2011 year should be read in conjunction with the attached audited financial statements for the year ended December 31, 2011, the quarterly reports for the periods ended March 31, June 30 and September 30, 2011 and the Annual Information Form dated March 7, 2012. Results are reported in Canadian dollars and have been prepared in accordance with International Financial Reporting Standards on a consistent basis with the annual financial statements.

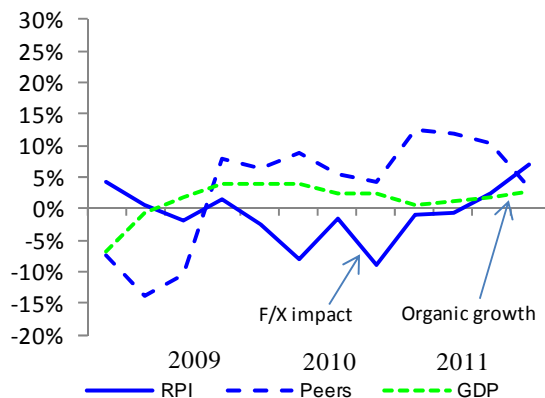
North American Packaging Industry

Packaging is pervasive, as almost all products are delivered in some form of packaging. The properties of 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. Markets rebounded in 2011 growing 9% with beverage, restaurant and fast-food packaging recovering.

Industry Segmentation by Product Type



Revenue growth



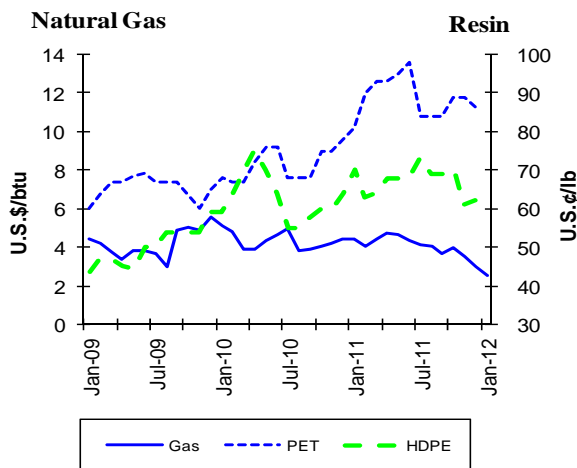
As large product marketers have consolidated, packaging companies have embarked on a parallel industry consolidation strategy to meet their needs. Concentration is high in the glass, metal and paper segments with two to five companies controlling approximately 90% of their market and concentration is medium in the rigid plastic, flexible plastic and closure segments with 10 to 15 companies controlling 50% to 60% of their market. In 2011 there were over 274 acquisitions in the global packaging industry, up 20% over 2010 but well below the 380 level of 2007, with an average value of U.S.\$28 million (2010 – U.S.\$66 million) at a median multiple of 6.8 times EBITDA¹ (2010 – 7.0). During 2011, the top 20 companies continued to spend on capital at the cautious rate of 5% of revenue. At the same time, excess capacity is continually being addressed with divestitures by conglomerates.

MANAGEMENT’S DISCUSSION AND ANALYSIS

March 7, 2012

Cdn\$ thousands

Energy prices continue to be a major factor for the industry affecting glass furnace economics, resin costs and freight costs. In 2011, resin and natural gas gapped out as resin prices were more driven by supply and demand with low PET inventory levels leading to high prices while high HDPE inventory levels resulted in pricing more in line with the main feedstock, natural gas. Financing structures in place at most packaging companies are similar to that of an income trust, with significant use of debt priced anywhere from 5% to 10% and free cash flow as defined within the industry at 4%, 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 13% overall for 2011.



PET – Polyethylene terephthalate; HDPE – High Density Polyethylene

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 50 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 approximately 40% of their market. Richards Packaging Inc. and its subsidiaries (“Richards Packaging”) are 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.

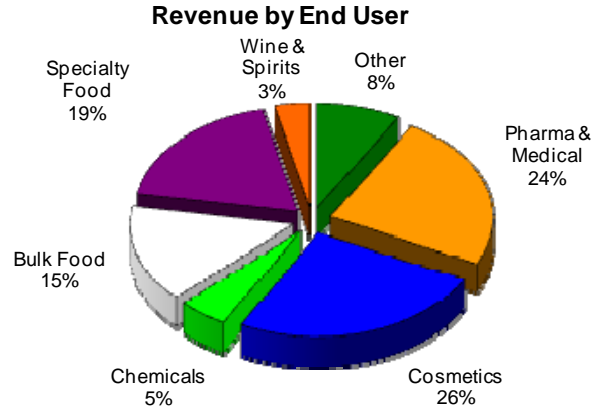
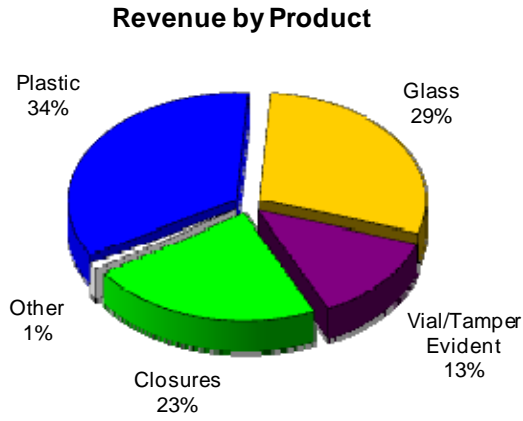
Richards Packaging Income Fund (the “Fund”) is a limited purpose, open-ended trust created on February 26, 2004 to invest in packaging distribution businesses throughout North America. The Fund commenced operations on April 7, 2004 when the Fund completed an initial public offering of 8,569,913 trust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

Richards Packaging serves a wide customer base that is comprised of approximately 11,000 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 15% of the total revenues. 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 17 sales offices and one agency location.

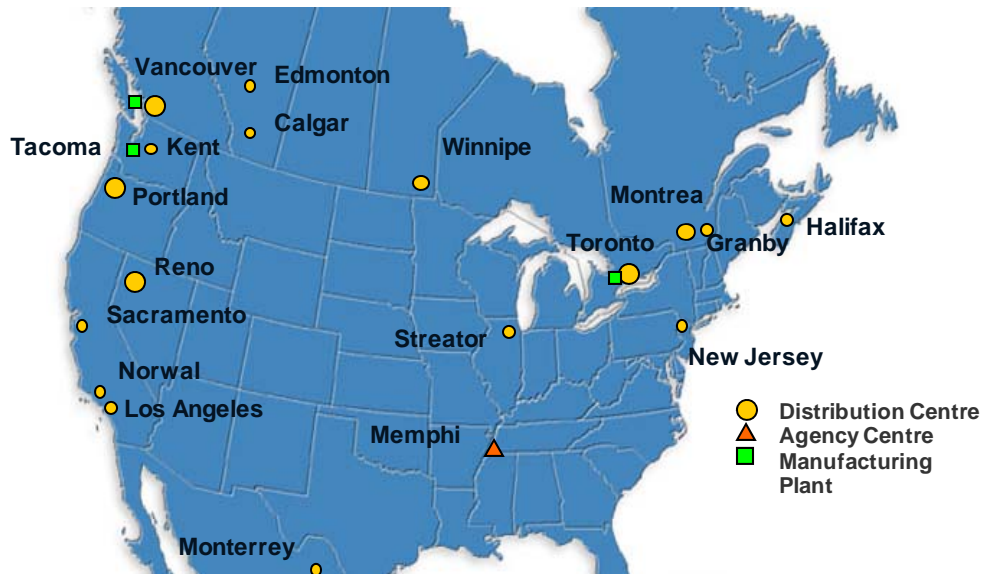
MANAGEMENT'S DISCUSSION AND ANALYSIS

March 7, 2012

Cdn\$ thousands



Richards Packaging Locations



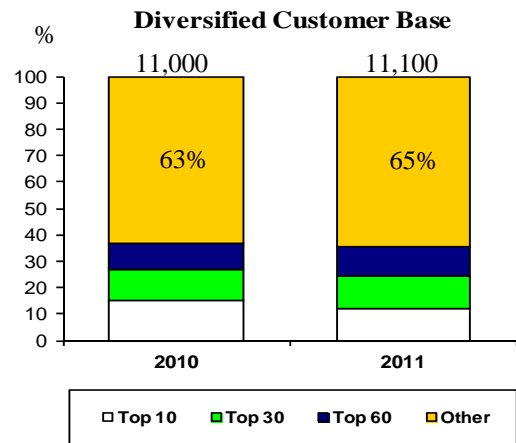
MANAGEMENT’S DISCUSSION AND ANALYSIS

March 7, 2012

Cdn\$ thousands

The cornerstones of Richards Packaging’s strategy include:

- Focusing on a diversified customer base 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,
- Being the largest distributor of surplus packaging, and
- Being the only major distributor with dedicated in-house plastics manufacturing capability.



During 2011, 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. The concentration of our top 60 customers was reduced in 2011 by \$2 million (2010 – \$4 million) which was more than offset by the \$5 million growth in small customers (2010 – \$3 million) as they experienced a doubling in their growth rate to 4% per annum.

Impact of Changes in Financial Markets

The global economic downturn that began in late 2008 continued through to 2011 which impacted the foreign exchange and credit markets and the economic climate.

Foreign Exchange

During the fourth quarter of 2008, the exchange rate decreased dramatically by U.S./Cdn. 13¢. By the third quarter of 2009, exchange rates had fully recovered the 2008 fourth quarter drop but the average rate for the year of 88¢ led to significant revenue and EBITDA¹ increases that has since reversed with average annual rates climbing to 97¢ in 2010 to above par to \$1.01 in 2011. With the strong Canadian dollar, along with higher freight costs, our large customers’ ability to compete is hampered driving our top 60 customer base down.

Richards Packaging Income Fund

MANAGEMENT'S DISCUSSION AND ANALYSIS

March 7, 2012

Cdn\$ thousands

Credit Markets and Interest rates

Short term borrowing rates have stayed low as governments across the globe attempt to avert another recession. The decrease in interest rates in 2009 of 2.8% to 0.4% led to a drop in interest expense of \$1.2 million. Rates have crept up slightly with short term BA's now settling in at 1.2% and leading to increases in interest expense of \$0.2 million per annum over the last two years.

(\$ millions)	2009	2010	2011
INTEREST RATES	0.4%	0.8%	1.2%
Impact on Interest	(1.2)	0.2	0.2
F/X - U.S./Cdn.\$	0.88	0.97	1.01
Impact on:			
Revenue	6.4	(8.7)	(3.5)
EBITDA	1.1	(1.3)	(0.5)

Economic Recession

After experiencing consecutive quarters of negative growth in 2009, the gross domestic product growth rates in the United States and Canada remained mainly in positive territory for 2010 and 2011. In Canada, the 2011 year saw growth rates begin at 0.9% in the first quarter, drop to -0.1% in the second quarter and finish at 0.4% in the fourth quarter while the United States grew from 0.4% in the first quarter and finished strong at 3.0% in the fourth quarter. These patterns of growth were reflected in our US operations where growth was in excess of 7.0% but relatively benign in our Canadian operations.

Highlights and Selected Financial Information

Highlights of the overall performance for the 2011 year include:

- Revenue up 1.8%, mainly due to organic growth in Richards Packaging US,
- EBITDA¹, representing 10.7% of sales or a 14.5% return on net operating assets, down \$1.9 mil.
- Inventory write-downs of \$1.2 mil. (2010 – \$0.4 mil.),
- Current income taxes down \$0.5 mil. due to lower Richards Packaging US earnings,
- Net income up \$1.6 mil. due primarily to the mark-to-market gains on exchangeable shares,
- Non-cash working capital decrease of \$1.3 mil. – \$2.3 mil. temporary increase in payables,
- Term debt repayments of \$3.5 mil.,
- Paid monthly distributions of 6.55¢ per Unit to yield an 10.5% return (@\$7.50/Unit – Dec 31st),
- Distributable cash flow² decreased by 4¢ to \$1.28 per Unit yielding a payout ratio³ of 61%.

The MD&A covers the three and 12 months ended December 31, 2011 and 2010 (generally referred to in this MD&A as the “fourth quarter”, the “2011 year” and the “2010 year” respectively). The following table sets out selected consolidated financial information:

Richards Packaging Income Fund

MANAGEMENT'S DISCUSSION AND ANALYSIS

March 7, 2012

Cdn\$ thousands

	Qtr. 1		Qtr. 2		Qtr. 3		Qtr. 4		Calendar Year		
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2009
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Income Statement Data:											
Revenue.....	44,739	45,158	44,913	45,215	47,755	46,744	44,856	41,893	182,263	179,010	189,112
EBITDA ¹	5,004	5,706	4,953	5,699	5,067	5,641	4,485	4,319	19,509	21,365	22,474
<i>Diluted per Unit</i>	42.4¢	48.2¢	42.0¢	48.3¢	42.9¢	47.8¢	38.0¢	36.6¢	\$1.65	\$1.81	\$1.89
Net income.....	1,336	2,472	2,108	915	3,316	2,228	1,338	847	8,098	6,462	14,526
<i>Diluted per Unit</i>	13.3¢	24.6¢	14.0¢	9.1¢	16.6¢	22.0¢	13.3¢	8.4¢	\$0.64	\$0.64	\$1.44
Balance Sheet Data:											
Net operating assets.....	136,332	137,893	134,710	139,231	137,132	139,413	133,348	137,277	133,348	137,277	139,188
<i>EBITDA/Assets</i>									14.6%	15.6%	16.1%
Bank debt.....	47,500	47,459	47,000	47,507	46,000	47,548	44,500	48,000	44,500	48,000	47,402
<i>Debt/EBITDA</i>	2.2	2.1	2.3	2.1	2.3	2.2	2.3	2.2	2.3	2.2	2.1
<i>Gearing ratio</i> ^{b)}									50.1%	53.8%	51.6%
Cash Flow Statement Data:											
Distributions ^{a)}	2,318	2,334	2,316	2,327	2,319	2,328	2,322	2,321	9,275	9,310	4,625
<i>Diluted per Unit</i>	19.6¢	19.7¢	19.6¢	19.7¢	19.6¢	19.7¢	19.7¢	19.7¢	\$0.79	\$0.79	\$0.39
<i>Payout ratio</i> ³	62%	59%	61%	55%	59%	57%	64%	71%	61%	60%	31%
Unit purchases.....	—	305	—	150	—	—	—	—	—	455	309

a) presented on a declared basis.; b) calculated as the percentage of bank debt to net operating assets less bank debt

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 investments 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, gains and losses on financial instruments and deferred income taxes. Factors considered when setting this level included the Income Trust tax beginning in 2011, the current low interest rates and the cash needs of operations. The payout ratio of 31% for the 2009 year reflects a temporary suspension of the 9.35¢ per Unit distributions beginning March 2009 and a reinstatement in October 2009 at the lower rate of 6.55¢ per Unit.

Review of Operations

Operations were approximately one-half (2010 – one-half) in Canada and one-half (2010 – one-half) in the United States (“Richards Packaging US”). Approximately one-third of sales are concentrated in Toronto, Montreal and Vancouver and one-third in Los Angeles, Reno and Portland.

Revenue increased by \$3.0 million, or 7.1%, for the fourth quarter, and by \$3.3 million, or 1.8%, for the 2011 year (2010 – decrease \$10.1 million, or 5.3%), from the same periods in 2010, respectively. During the fourth quarter, revenue increased on organic growth of \$2.7 million, or 6.5% (2010 – decreased \$3.2 million, or 7.1%) and the translation impact of Richards Packaging US with the Canadian dollar weakening 1¢ to U.S./Cdn. 98¢ of \$0.3 million (2010 – decreased \$0.9 million). For the 2011 year, the increase due to organic revenue growth of \$5.4 million or

Richards Packaging Income Fund

MANAGEMENT'S DISCUSSION AND ANALYSIS

March 7, 2012

Cdn\$ thousands

3.0% and inventory sell-off of \$1.4 million or 0.8% (2010 – organic revenue contraction of \$1.4 million or 0.8%) was offset by the translation impact of Richards Packaging US of \$3.5 million due to a U.S./Cdn. 4¢ strengthening (2010 – \$8.7 million).

	Qtr. 1		Qtr. 2		Qtr. 3		Qtr. 4		Calendar Year		
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2009
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Revenue	44,739	45,158	44,913	45,215	47,755	46,744	44,856	41,893	182,263	179,010	189,112
Cost.....	37,419	37,025	37,677	37,082	40,431	38,523	38,342	35,132	153,869	147,762	156,157
Gross profit.....	7,320	8,133	7,236	8,133	7,324	8,221	6,514	6,761	28,394	31,248	32,955
	16.4%	18.0%	16.1%	18.0%	15.3%	17.6%	14.5%	16.1%	15.6%	17.5%	17.4%
Expenses.....	2,312	2,491	2,277	2,428	2,213	2,576	2,103	2,372	8,905	9,867	10,479
FX ^{a)}	4	(64)	6	6	44	4	(74)	70	(20)	16	2
EBITDA ¹	5,004	5,706	4,953	5,699	5,067	5,641	4,485	4,319	19,509	21,365	22,474
	11.2%	12.6%	11.0%	12.6%	10.6%	12.1%	10.0%	10.3%	10.7%	11.9%	11.9%
Amortization.....	1,900	1,961	1,939	1,942	1,941	1,937	1,845	1,970	7,625	7,810	8,022
Patent defense costs.....	60	63	156	112	73	136	22	72	311	383	145
Financial expenses.....	627	676	677	917	678	701	669	1,148	2,651	3,442	4,191
UFI ^{a)}	—	—	—	—	—	—	—	—	—	—	(7,662)
Exchangeable shares.....	684	536	(452)	1,688	(1,359)	623	547	940	(580)	3,787	2,219
Vision.....	61	(11)	(8)	36	22	25	(9)	34	66	84	(23)
Income tax.....	336	9	533	89	396	(9)	73	(692)	1,338	(603)	1,056
Net Income (loss)	1,336	2,472	2,108	915	3,316	2,228	1,338	847	8,098	6,462	14,526

a) FX=foreign currency losses/(gains) from operations, UFI= gains on financial instruments

Cost of products sold (before amortization) increased \$3.2 million for the fourth quarter, or 9.2%, and by \$6.1 million for the 2011 year, or 4.1% (2010 – \$8.4 million decrease, or 5.4%), from the same periods in 2010, respectively. During the fourth quarter, gross profit margins were down 1.6% (2010 – 2.0%) from the same period in 2010, primarily due to the impact of \$1.0 million of inventory write-downs (2010 – \$0.2 million). For the 2011 year, gross profit margin were down and 1.9% (2010 – flat) due to the impact of inventory write-downs, foreign exchange, ocean freight and price degradation in select large accounts in response to increasing competitive threats. The volatility in the price of resins continues to not have a material impact on margins as a result of management's practice of immediately passing through increases and decreases to customers.

Expenses (before amortization) decreased \$0.3 million, or 0.7% of sales for the fourth quarter (2010 – \$0.3 million) and decreased \$1.0 million for the 2011 year (2010 – \$0.6 million decrease), over the same periods in 2010, respectively mainly due to staffing expense reductions of \$0.8 million and the translation impact of U.S. dollar denominated expenses of Richards Packaging US.

The foreign exchange losses (gains) from operations results from exchange rate changes applied to cross-border transactions and our U.S. denominated working capital position within our Canadian operations.

EBITDA¹ increased \$0.2 million for the fourth quarter and decreased \$1.9 million for the 2011 year (2010 – \$1.1 million decrease), over the same periods in 2010, respectively. During the 2011 year, the impact of the U.S./Cdn. 4.0¢

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strengthening resulted in a decrease to EBITDA of \$0.4 million (2010 – \$1.3 million decrease). As a percent of sales, EBITDA was at 10.0% for the fourth quarter and 10.7% for the 2011 year (2010 – 11.9%). Changes were due to the factors outlined above.

Other expenses comprise amortization, financial expenses including debt accretion and interest which were lower due to the absence of debt accretion in the 2011 year; For the 2009 year, gains on financial instruments comprised of foreign exchange gains on translation of U.S. denominated debt and the mark-to-market gain or loss on the fixed interest rate swap. The only cash item in other expenses is the interest and fees paid.

Amortization of \$1.8 million for the fourth quarter was mainly comprised of \$1.6 million for intangible assets, which represents a charge for customer relationships and patents. The remaining amortization amounts consisted of plant and equipment depreciation of \$0.2 million, which annualized, approximates the annual maintenance capital expenditure spending requirement.

Financial expenses for the fourth quarter decreased by \$0.5 million and by \$0.8 million for the 2011 year from the same periods in 2010, respectively both due to the absence of debt accretion.

Gains on financial instruments were comprised of foreign currency translation of debt and mark-to-market adjustments on a fixed interest rate swap. In the 2009 year, foreign currency gains were \$7.0 million and together with the gain on the fixed interest rate swap, net gains were \$7.7 million. The U.S.\$47.0 million term loan outstanding on July 31, 2009 was converted in CDN\$ at a rate of 92¢ resulting in a cumulative foreign currency gain of \$2.5 million. This conversion removed the volatility associated with foreign currency translation gains on the debt. Also included is a \$0.7 million reversal of losses on the mark-to-market of the fixed interest rate swap which matured on June 5, 2009. Since the debt was borrowed mainly in U.S. dollars to match the U.S. dollar interest obligations with the net cash it receives from its subsidiaries in the US prior to conversion, this natural hedge no longer exists.

Exchangeables include the mark-to-market loss (gain) and the dividends paid on the exchangeable shares. The mark-to-market gain for the 2011 year reflects a unit price decrease during the year of \$1.25 to \$7.50 per Unit (\$1.4 million) offset by the 6.55¢ per month dividend rate on the exchangeable shares (\$0.8 million).

Vision represents the share of loss (income) in the equity accounted Vision joint venture.

For the 2011 year, taxes increased \$1.9 million as deferred income taxes increased \$2.4 million and reflect the utilization of loss carry forwards to replace the benefit of the deductibility of distributions which are no longer available with the imposition of the trust tax effective January 1, 2011, offset by the withholding tax paid in the 2010 year not repeating. Current income taxes were \$1.1 million (2010 – \$1.5 million) representing tax leakage predominately for the Richards Packaging US. Net deferred tax assets available to shield income taxes are \$1.3 million, which include a loss carry forward of \$1.8 million and \$0.4 million of working capital offset by \$0.8 million of plant and equipment and computer system software.

Net income for the fourth quarter was \$1.3 million, and for the 2011 year was \$8.1 million, which represented 13.3¢ and \$0.64 per Unit on a diluted basis, respectively. A time-weighted average total of 10,743,470 Units and 1,059,043 exchangeable shares, exchangeable into Units on a one-for-one basis, were outstanding in 2011.

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Distributable Cash Flow

	Qtr. 1		Qtr. 2		Qtr. 3		Qtr. 4		Calendar Year		
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2009
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Cash provided by											
operating activities.....	2,074	611	2,934	1,797	3,550	1,950	7,377	4,676	15,935	9,034	15,835
Working capital changes.....	1,735	3,273	634	2,126	162	2,208	(3,799)	(1,736)	(1,268)	5,871	(1,510)
Non-cash charges.....	1,195	1,822	1,385	1,776	1,355	1,483	907	1,379	4,842	6,460	8,149
EBITDA¹	5,004	5,706	4,953	5,699	5,067	5,641	4,485	4,319	19,509	21,365	22,474
Interest ^{a)}	627	620	677	651	678	660	669	676	2,651	2,607	3,971
Cash income tax.....	302	779	347	650	396	403	8	(309)	1,053	1,523	2,766
Maintenance capital.....	333	327	106	167	91	478	165	675	695	1,647	686
Distributable cash flow² ...	3,742	3,980	3,823	4,231	3,902	4,100	3,643	3,277	15,110	15,588	15,051
<i>Diluted per Unit</i>	<i>31.7¢</i>	<i>33.7¢</i>	<i>32.4¢</i>	<i>35.8¢</i>	<i>33.1¢</i>	<i>34.7¢</i>	<i>30.9¢</i>	<i>27.8¢</i>	<i>\$1.28</i>	<i>\$1.32</i>	<i>\$1.26</i>
Distributions.....	2,318	2,334	2,316	2,327	2,319	2,328	2,322	2,321	9,275	9,310	4,625
<i>Diluted per Unit</i>	<i>19.6¢</i>	<i>19.7¢</i>	<i>19.6¢</i>	<i>19.7¢</i>	<i>19.6¢</i>	<i>19.7¢</i>	<i>19.7¢</i>	<i>19.7¢</i>	<i>\$0.79</i>	<i>\$0.79</i>	<i>\$0.39</i>
<i>Payout ratio³</i>	<i>62%</i>	<i>59%</i>	<i>61%</i>	<i>55%</i>	<i>59%</i>	<i>57%</i>	<i>64%</i>	<i>71%</i>	<i>61%</i>	<i>60%</i>	<i>31%</i>
Free cash flow²	1,424	1,646	1,507	1,904	1,583	1,772	1,321	956	5,835	6,278	10,426
Units outstanding											
<i>Diluted basis 000's</i>	11,803	11,827	11,803	11,803	11,803	11,803	11,803	11,803	11,803	11,808	11,903

a) financial expenses less debt accretion

The distributable cash flow² definition excludes changes in working capital and capital expenditures for expansion of the business, as they are necessary to drive organic growth and are expected to be financed by a \$5.0 million revolving facility (nil drawn; 2010 – nil drawn).

Distributable cash flow² for the fourth quarter at \$3.6 million increased \$0.4 million in comparison to the same period in 2010 as higher EBITDA and lower maintenance capital were offset with higher income taxes as bonus depreciation, taken entirely in the fourth quarter of the 2010 year, was taken throughout the 2011 year. Maintenance capital expenditures were otherwise consistent with management's annual target of \$0.7 million.

The monthly distribution of 6.55¢ per Unit represents an annual yield of 10.5% on a \$7.50 price per Unit at December 31, 2011 and a payout ratio³ of 61% (2010 – 60%). Based upon the 2011 year, 100% and 12% of the distributions will represent return of capital to unitholders and exchangeable shareholders respectively.

Liquidity and Financing

Cash flows from operating activities

Cash flows from operating activities increased \$2.7 million for the fourth quarter and increased by \$6.9 million for the 2011 year, over the same periods in 2010. The increases were due primarily to higher cash flows from working capital over the same periods in 2010 driven by less inventory spending, decreases in prepaid expenses and income taxes

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recoverable and an increase in accounts payable at year end. Non-cash charges decreased in the fourth quarter due to lower current taxes.

The financial structure of the Fund allows for maximum distributions of cash flow from operations to the unitholders and exchangeable shareholders as outlined above in the distributable cash discussion. Actual distributions paid during the 2011 year were \$9.3 million with an additional \$0.8 million declared for December, which was paid January 13th.

Normal Course Issuer Bid

On March 10, 2011, the Fund initiated a normal course issuer bid to purchase up to 200,000 Units prior to March 9, 2012. Free cash flow was diverted to debt repayment for 2011 to manage the debt leverage. During the 2010 year 62,736 units were purchased at an average price of \$7.25 per Unit.

Free Cash Flow Deployment

(\$ millions)	2009	2010	2011
Free Cash Flow	10.4	6.3	5.8
Patents	0.1	0.4	0.3
Working Capital	1.2	5.2	—
Expansion Capex	0.7	0.4	0.3
Unit Buyback	0.3	0.5	—
Debt Repayment	7.7	(0.2)	3.5

Cash income taxes

The cash income tax expense for the 2011 year was \$1.1 million (2010 – \$1.5 million), predominately made up of current income tax for the Richards Packaging US. The decrease resulted from lower earnings and the absence of \$0.1 mil. of withholding tax. The loss carry forwards in Richards Canada ensure that income tax leakage will be limited to Richards Packaging US until 2013 beyond which the new tax imposed upon publicly traded income trusts takes effect⁴.

Capital expenditures

Capital expenditures for the 2011 year were \$1.0 million (2010 – \$2.0 million), of which \$0.3 million (2010 – \$0.4 million) was on account of expansion capital and \$0.7 million on account of maintenance capital (2010 – \$1.6 million). Expenditures classified as maintenance capital are mainly comprised of refurbishment of moulds for replacement packaging driven by customer marketing programs. In the 2010 year, \$0.6 million was incurred for a new computer system software platform consistent with Richards Canada's systems. Expansion capital expenditures were mainly incurred on new equipment and moulds for new customer programs.

Financing activities and instruments

Credit facilities include a \$44.5 million term loan (2010 – \$48.0 million) with maturity on May 31, 2013 and up to \$5.0 million in revolving debt to fund working capital expansion. The term loan facility bears interest at BA's plus a premium of 2.5% to 3.25% (2010 – 2.5% to 3.25%) or at the prime rate plus a premium of 1.5% to 2.25% (2010 – 1.5% to 2.25%). During the 2011 year, \$3.5 million of term debt was repaid.

The credit facilities are subject to a number of covenants including the leverage ratio which was to maintain debt less than 2.75 times the trailing twelve months EBITDA¹. As at December 31, 2011, our pro forma leverage ratio was 2.20 (2010 – 2.16), down from a high of 3.00 as at March 31, 2009. To ensure we achieved our target of 2.50 times leverage ratio, distributions were temporarily suspended beginning in March 2009. On July 31, 2009, the debt was converted at U.S./Cdn. 92¢ to Canadian denominated term debt resulting in a \$2.5 million currency translation gain.

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U.S. dollar denominated interest provided an effective match with the net cash received from Richards Packaging US. Combined with cash flow from operations, management believes that adequate financing will be available for the foreseeable future⁴.

Previously, the interest on the U.S. denominated debt negated approximately two-thirds of the inherent foreign currency exchange risk on the Richards Packaging US cash flow. As a consequence of converting the U.S. denominated debt, distributable cash flow sensitivity to foreign currency fluctuations is now \$0.1 million for every U.S./Cdn. 1¢ movement.

<i>Commitments and contractual obligations</i>	(\$ millions)	Total	< 1 yr.	< 3 yrs.	< 5 yrs.	Beyond
A competitor has launched a product in July 2006 that Richards Packaging claims infringes our Dispill patent and trademark. The patent and trademark expenditures above reflect management's estimate of ongoing legal costs to continue in this action. If we succeed, there could be a positive effect on profitability in the future.	Bank debt	44.5		44.5		
	Previous shareholder	0.8	0.8			
	Patents and trademarks	0.4	0.4			
	Annual bonus plans	0.5	0.5			
	Operating leases	16.8	3.7	6.1	3.5	3.5
		63.0	5.4	50.6	3.5	3.5

Outlook⁴

Management believes that financial performance is on track to meet ongoing requirements for working capital, capital expenditures and to sustain monthly distributions to unitholders at the newly established level through 2012.

Management expects revenue growth for the fourth quarter to continue into the first quarter before returning to be more in line with the industry growth average of 1-3%. The impact of exchange translation for the 2012 year is expected to be minimal based on current exchange rates at U.S./Cdn.\$1.01.

EBITDA¹ for the fourth quarter was \$4.5 million and \$19.5 million for the 2011 year, and is expected to get back to levels approaching 11% of revenue. For the 2012 year, translation is not expected to materially impact EBITDA at current exchange rates.

The cash income tax expense is expected to be \$2.3 million in 2011 due to tax leakage from higher earnings in Richards Packaging US and partial taxes in Canada. Based upon Richards Canada's current tax profile, loss carry forwards which will partially shield taxes in 2012 allowing for a substantial return of capital to unitholders.

Maintenance capital will continue to be funded by cash flow from operations and is expected to be \$0.7 million in 2012. Expansion capital is expected to be in the order of \$1 to \$2 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.

Cash and cash equivalents on the statement of financial position of \$3.9 million at year end will be deployed to fund the working capital requirements for revenue growth. For 2012, surplus distributable cash is expected to be deployed to pay down debt, purchase units under the normal course issuer bid and/or fund acquisitions.

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Risks and Uncertainties

Business risks

Investment in Units involves risks inherent in the ordinary course of business including: sustainability of customer and supplier relationships, financial stability of customers, lack of written customer and supplier agreements, competition from other packaging companies, the extent and duration of an economic downturn, patent and trademark challenges, inventory obsolescence, trade risks, resin price and exchange rate fluctuations, interest rate volatility, income taxes 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 2011 Annual Information Form dated March 7, 2012.

Liquidity Risk

The ability to make scheduled payments of interest or to refinance will depend on leverage and future cash flow, which is subject to operational performance, prevailing economic conditions, exchange rate fluctuations, interest rate levels, and financial, competitive and other factors, many of which are beyond Richards Packaging's control. These factors might inhibit refinancing the debt at all, or on favourable terms. In addition, the credit facilities contain restrictive covenants that limit the discretion of management with respect to certain business matters and financial covenants that require Richards Packaging to meet certain financial ratios and financial condition tests. Failure to comply with 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 borrowings under the credit facilities were to be accelerated, there can be no assurance that assets on hand would be sufficient to repay in full that indebtedness. Richards Packaging's approach is to ensure sufficient liquidity to meet its liabilities when due. Cash levels are monitored daily to ensure sufficient continuity of funding.

Transactions with Related Parties

Two facilities were leased in 2011 from an officer of Richards Packaging. 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 7, 2012, the Fund had 10,743,470 Units and Holdings had 1,059,043 exchangeable shares outstanding, respectively. See note 15 of the attached consolidated financial statements for further discussion on the terms of the Units and exchangeable shares.

Critical Accounting Estimates

Preparation of the consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions which affect the amounts reported and disclosure of contingent amounts for assets and liabilities as at December 31, 2011 and revenue and expenses for the year then ended. Critical accounting estimates used in preparation of the consolidated financial statements are outlined below.

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Allowance for doubtful accounts

An allowance for doubtful accounts 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, 2011 is sufficient to cover risks inherent in outstanding receivables.

Inventory obsolescence

Management monitors future demand for its inventory on a product-by-product basis, inventory aging and prevailing demand in local markets to record an allowance for obsolescence. Given the current adverse economic climate, management's analysis resulted in a \$1.2 million recognition of expense through inventory write down for the 2011 year (2010 – \$0.4 million). Based upon this review, management believes the obsolescence provision is adequate to cover risks inherent in inventory on hand as at December 31, 2011.

Intangible assets

Intangible assets have been recognized in connection with various acquisitions valued at \$7.7 million as of December 31, 2011 pertaining to the future customer relationships that are not under long-term contract. 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. The customer relationship intangible and associated \$3.2 million future income tax liability as at December 31, 2011 will be amortized to income over 15 years from the date of acquisition. In addition, trademark intangible assets of \$3.0 million and an associated \$1.2 million future income tax liability have been recorded. Although previously recognized patent and customer relationship intangible assets affect net income, they do not impact distributable cash flow².

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. Although the Unit price was \$7.50 as at December 31, 2011 (2010 – \$8.75), management believes that this is still not indicative of the fair value of the Fund. To determine fair value, management relies upon a valuation method based on a discounted cash flow model that assumes revenue growth and inflation of 1.1% per annum respectively. Overall the carrying value of goodwill continues to be supported by the fair value of the Fund.

Change in Accounting Policies

New Accounting Pronouncements

International Financial Reporting Standards ("IFRS")

The Canadian Accounting Standards Board mandated that publicly traded enterprises adopt IFRS for interim and annual reporting purposes beginning January 1, 2011. The impact of IFRS implementation is limited to the reclassification of *Non-controlling interests* to *Debt* and the reversal of *Foreign currency loss* associated with the net investment in Richards Packaging US. The impact on the January 1 and December 31, 2010 balances is fully outlined in note 3 and 21 below, and for March 31, June 30 and September 30, 2010 in our Q1, Q2 and Q3 Quarterly Reports,

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in the *New Accounting Pronouncements* sections of *Management's Discussion and Analysis*, respectively. The impact of implementation for the fourth quarter ended December 31, 2010, is outlined below.

Joint Venture – Vision

The Fund adopted retroactively the new accounting standard for *Joint Arrangements – IFRS 11* which results in Vision being recorded on an “equity accounting” basis rather than a “proportionate consolidation” basis, effective January 1, 2010. The impact of adoption is outlined below and in note 21.

<i>Vision adjustments</i>	Mar. 31		June 30		Sept. 30		Dec. 31	
	2011	2010	2011	2010	2011	2010	2011	2010
	\$	\$	\$	\$	\$	\$	\$	\$
Cash and cash equivalents	(68)	(163)	(177)	(198)	(113)	(118)	(25)	(165)
Accounts payable	(277)	(219)	(165)	(65)	(122)	(175)	(155)	(169)
Plant and equipment	(178)	(255)	(190)	(262)	(173)	(233)	(217)	(211)
Other	(56)	(98)	(54)	(174)	(155)	(148)	(179)	(95)
Investment - Vision	579	735	586	699	563	674	576	640

The quarterly impact to the statements of net income and comprehensive income and statements of cash flows were not material.

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STATEMENT OF NET INCOME AND COMPREHENSIVE INCOME

For the three months ended December 31, 2010

[Consolidated]

<i>Cdn\$ thousands</i>	IFRS	Vision	Adj's	Cdn GAAP
	\$	\$	\$	\$
Revenue	41,893			41,893
Cost of products sold	37,043	14		37,029
Administrative expenses	2,431	(46)		2,477
Foreign currency loss (gain)	70		120	(50)
Patent defense legal costs	72			72
Profit from operations	2,277	32	(120)	2,365
Financial expenses	1,148	(1)		1,149
Exchangeable shares				
Mark-to-market loss	585		585	
Distributions	355		355	
Share of loss - Vision	34	34		
Income before income taxes	155	(1)	(1,060)	1,216
Income tax expense income				
Current taxes	(309)			(309)
Deferred taxes	(383)	(1)		(382)
	(692)	(1)		(691)
Non-controlling interests			(229)	229
Net income for the period	847	—	(831)	1,678
Basic income per Unit	<i>\$0.08</i>			<i>\$0.17</i>
Diluted income per Unit	<i>\$0.08</i>			<i>\$0.14</i>
Other comprehensive losses				
Richards Packaging US				
Currency translation adjustment	(2,052)		(101)	(1,951)
Comprehensive income for the period	(1,205)		(932)	(273)

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STATEMENT OF CASH FLOWS

For the three months ended December 31, 2010

[Consolidated]

Cdn\$ thousands	IFRS \$	Vision \$	Adj's \$	Cdn GAAP \$
OPERATING ACTIVITIES				
Net income for the period	847		(831)	1,678
Non-controlling interest			(229)	229
Add (deduct) items not involving cash				
Plant and equipment depreciation	363	(23)		386
Intangible asset amortization	1,606			1,606
Debt accretion	(47)			(47)
Exchangeable shares - Mark-to-market loss	585		585	
Share of loss - Vision	7	7		
Deferred income taxes	(421)	(39)		(382)
	2,940	(55)	(475)	3,470
Changes in non-cash working capital	1,736	8	121	1,607
Cash provided by operating activities	4,676	(47)	(354)	5,077
INVESTING ACTIVITIES				
Additions to plant and equipment	(399)			(399)
Expenditures on computer systems software	(315)			(315)
Cash used in investing activities	(714)			(714)
FINANCING ACTIVITIES				
Increase in issued and outstanding cheques	(1,542)			(1,542)
Proceeds from term debt	499			499
Distributions paid to exchangeable shareholders			354	(354)
Distributions paid to unitholders	(1,970)			(1,970)
Cash used in financing activities	(3,013)		354	(3,367)
Foreign currency gain			(30)	30
Net cash flows for the period	949	(47)	(30)	1,026
Cash and cash equivalents, beginning of year		(118)		118
Foreign currency translation differences	30		30	
Cash and cash equivalents, end of year	979	(165)		1,144

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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's Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of the disclosure controls and procedures as well as the design and operating effectiveness of internal controls over financial reporting as of December 31, 2011 and have concluded that such controls and procedures are adequate and effective. Management determined that there were no material weaknesses in the Fund's internal controls over financial reporting as of December 31, 2011 and there have been no changes in the internal controls over financial reporting during the year ended December 31, 2011 that have materially affected, or are reasonably likely to materially affect, its internal controls 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.

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- 1 *Management defines EBITDA as earnings before amortization, financial expenses, patent defense costs, unrealized losses (gains) and dividends on exchangeable shares and taxes. EBITDA is the same as profit from operations as outlined in the annual financial statements after adding back amortization and patent defense costs. 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 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 liquidity and cash flows. EBITDA does not have a standardized meaning prescribed by IFRS and therefore method of calculating EBITDA may not be comparable to similar measures presented by other companies.*
 - 2 *Management defines distributable cash flow, in accordance with Richards Packaging's credit agreement, as EBITDA less interest, cash income tax expense and maintenance capital expenditures. Free cash flow is distributable cash flow less distributions. The objective of presenting these measures is to calculate the amount which is available for distribution to unitholders or exchangeable shareholders and to determine the amount available to fund increases in working capital or expansion capital. 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 liquidity and cash flows. Distributable cash flow does not have a standardized meaning prescribed by IFRS and therefore the method of calculating distributable cash flow may not be comparable to similar measures presented by other companies.*
 - 3 *Management defines payout ratio as distributions and dividends declared over distributable cash flow². The objective of presenting this measure is to calculate the percentage of actual distributions in comparison to the amount available for distribution. Payout ratio does not have a standardized meaning prescribed by IFRS. The method of calculating the payout ratio may not be comparable to similar measures presented by other income trusts.*
 - 4 *The Report to unitholders and this MD&A 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*

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March 7, 2012

Cdn\$ thousands

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. Readers should not place undue reliance on forward-looking information as a number of factors could cause actual events, results and prospects to differ materially from those expressed in or implied by the forward-looking information. The risks and uncertainties include, among other things, changes in customer and supplier relationships, the extent and duration of the worldwide recession 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 foregoing factors and various other 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 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 financial statements were prepared in accordance with International Financial Reporting Standards 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 7, 2012.

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 financial statements have been independently audited by PricewaterhouseCoopers LLP on behalf of the unitholders, in accordance with International Reporting Standards. The Auditor's Report outlines the nature of their audit and expresses their opinion on the financial statements of the Fund.

"Wayne McLeod"

"Gerry Glynn"

"Enzio Di Gennaro"

Chair
Audit Committee

Chief Executive Officer
Richards Packaging Inc.

Chief Financial Officer
Richards Packaging Inc

Toronto, Ontario
March 7, 2012

March 7, 2012

INDEPENDENT AUDITOR'S REPORT

To the Unitholders of Richards Packaging Income Fund

We have audited the accompanying consolidated financial statements of Richards Packaging Income Fund, which comprise the consolidated statements of financial position as at December 31, 2011 and December 31, 2010 and January 1, 2010 and the consolidated statements of net income and comprehensive income, changes in equity and cash flows for the years ended December 31, 2011 and December 31, 2010, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Richards Packaging Income Fund as at December 31, 2011 and December 31, 2010 and January 1, 2010 and its financial performance and its cash flows for the years ended December 31, 2011 and December 31, 2010 in accordance with International Financial Reporting Standards.

(signed) "PricewaterhouseCoopers LLP"

Chartered Accountants, Licensed Public Accountants
Toronto, Canada

Richards Packaging Income Fund

STATEMENTS OF NET INCOME AND COMPREHENSIVE INCOME

For the years ended December 31

[Consolidated]

<i>Cdn\$ thousands</i>	Notes	2011 \$	2010 \$
Revenue	4	182,263	179,010
Cost of products sold	5	161,388	155,230
Administrative expenses	5	9,011	10,209
Foreign currency loss (gain)	18	(20)	16
Patent defense legal costs	19	311	383
Profit from operations		11,573	13,172
Financial expenses	14, 18	2,651	3,442
Exchangeable shares			
Mark-to-market loss (gain)	15, 18	(1,409)	2,360
Distributions	15	829	1,427
Share of loss - Vision	17	66	84
Income before income taxes		9,436	5,859
Income tax expense (income)			
Current taxes	6	1,053	1,523
Deferred taxes	6	285	(2,126)
		1,338	(603)
Net income for the year		8,098	6,462
Basic income per Unit	15	\$0.75	\$0.64
Diluted income per Unit	15	\$0.64	\$0.64
Other comprehensive income			
Richards Packaging US			
Currency translation adjustment		1,326	(2,994)
		1,326	(2,994)
Comprehensive income for the year		9,424	3,468

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

“Wayne McLeod”
Chair - Audit Committee

“Gerry Glynn”
CEO - Richards Packaging Inc.

“Enzio Di Gennaro”
CFO - Richards Packaging Inc.

Richards Packaging Income Fund

STATEMENTS OF FINANCIAL POSITION

As at December 31

[Consolidated]

<i>Cdn\$ thousands</i>	Notes	2011	2010	2010 January 1
		\$	\$	\$
Current Assets				
Cash and cash equivalents	7	3,874	979	1,747
Accounts receivable	8	19,081	18,766	18,873
Inventory	9, 18	37,209	35,169	31,264
Prepaid expenses and deposits	10	2,138	2,288	1,965
Income taxes recoverable	6, 20	283	700	10
		62,585	57,902	53,859
Current Liabilities (excluding debt)				
Accounts payable and accruals	11	(21,303)	(18,787)	(18,644)
Distributions payable	15	(773)	(773)	(780)
Due to previous shareholder	11	(802)	(784)	(825)
		(22,878)	(20,344)	(20,249)
WORKING CAPITAL	2	39,707	37,558	33,610
Non-current Assets				
Plant and equipment	4, 12	3,606	3,820	3,910
Investment - Vision	4, 17	576	640	724
Intangible assets	4, 13	24,990	31,108	37,514
Goodwill	4, 13	71,088	70,390	72,010
		100,260	105,958	114,158
Non-current Liabilities (excluding debt)				
Deferred income taxes	6	(6,619)	(6,239)	(8,580)
NET OPERATING ASSETS	2	133,348	137,277	139,188
Debt				
Term debt	14	44,500	48,000	47,402
Exchangeable shares				
Current	15, 18	7,789	5,330	6,857
Non-current	15, 18	—	3,867	5,718
		52,289	57,197	59,977
Equity				
Unitholders' capital	15	81,300	89,745	94,349
Retained earnings (deficit)		5,425	(2,673)	(11,140)
Accumulated other comprehensive loss		(5,666)	(6,992)	(3,998)
		81,059	80,080	79,211
CAPITAL	16, 18	133,348	137,277	139,188
Commitments and contingencies	19			

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

Richards Packaging Income Fund

STATEMENTS OF CHANGES IN EQUITY

For the years ended December 31

[Consolidated]

<i>Cdn\$ thousands</i>	Notes	Unitholders' capital	Retained earnings (deficit)	AOCL^{a)}	
		\$	\$	\$	\$
January 1, 2010		94,349	(11,140)	(3,998)	79,211
Share of comprehensive income			6,462	(2,994)	3,468
Distributions	15		(7,933)		(7,933)
Reclass to reflect return of capital	15	(9,938)	9,938		
Exchangeable share conversion	15	5,789			5,789
Purchased for cancellation, net	15	(455)			(455)
December 31, 2010		89,745	(2,673)	(6,992)	80,080
Share of comprehensive income			8,098	1,326	9,424
Distributions	15	(8,445)			(8,445)
December 31, 2011		81,300	5,425	(5,666)	81,059

a) AOCL - Accumulated other comprehensive loss reflects the foreign currency translation of the net investment in Richards Packaging US.

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

Richards Packaging Income Fund**STATEMENTS OF CASH FLOWS***For the years ended December 31**[Consolidated]*

<i>Cdn\$ thousands</i>	Notes	2011	2010
		\$	\$
OPERATING ACTIVITIES			
Net income for the year		8,098	6,462
Add (deduct) items not involving cash			
Plant and equipment depreciation	<i>12</i>	1,187	1,324
Intangible assets amortization	<i>13</i>	6,440	6,485
Debt accretion	<i>14</i>	—	316
Exchangeable shares - Mark-to-market loss (gain)	<i>15</i>	(1,409)	2,360
Share of loss - Vision	<i>17</i>	66	84
Deferred income taxes	<i>6</i>	285	(2,126)
		14,667	14,905
Changes in non-cash working capital	<i>20</i>	1,268	(5,871)
Cash provided by operating activities		15,935	9,034
INVESTING ACTIVITIES			
Additions to plant and equipment	<i>12</i>	(944)	(1,314)
Additions to intangible assets	<i>13</i>	(90)	(655)
Cash used in investing activities		(1,034)	(1,969)
FINANCING ACTIVITIES			
Repayment of term debt	<i>14</i>	(3,500)	(47,719)
Proceeds from term debt	<i>14</i>	—	48,000
Purchase of trust units for cancellation	<i>15</i>	—	(455)
Distributions paid to unitholders	<i>15</i>	(8,445)	(7,890)
Cash used in financing activities		(11,945)	(8,064)
Net cash flows for the year		2,956	(999)
Cash and cash equivalents, beginning of year	<i>7</i>	979	1,747
Foreign currency translation differences		(61)	231
Cash and cash equivalents, end of year	<i>7</i>	3,874	979

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

Richards Packaging Income Fund

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

[Cdn\$ thousands]

1. FORMATION OF THE FUND

Richards Packaging Income Fund [the “Fund”] is an open-ended, limited purpose trust established under the laws of the Province of Ontario, Canada by a Declaration of Trust dated February 26, 2004. The Fund completed an initial public offering of trust Units [the “Units”] on April 7, 2004, through the Toronto Stock Exchange, to facilitate the acquisition of Richards Packaging Inc.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial statements of the Fund have been prepared in compliance with International Financial Reporting Standard [“IFRS”] and IFRS 1 *First-time Adoption of IFRS*. The measurement basis used was the historic cost convention, except for exchangeable shares which are measured at fair value. *Working capital* is defined as current assets less current liabilities (excluding debt) and *Net operating assets* is defined as working capital plus non-current assets less non-current liabilities (excluding debt). Accounting policies utilized under IFRS are consistent with those previously applied under Canadian generally accepted accounting principles before the adoption of IFRS [“Cdn GAAP”] except as disclosed in note 3 and 21. Significant accounting policies are summarized as follows:

Principles of consolidation

The financial statements include the accounts of the Fund, Richards Packaging Holdings Inc. [“Holdings”] and its subsidiaries: Richards Packaging Inc. [“Richards Canada”], Richards Packaging Holdings (US) Inc., 071907 Inc., Richards Packaging, Inc. and The E.J. McKernan Company [collectively “Richards Packaging US”]. Vision Plastics Inc. [“Vision”], which is jointly controlled and accounted for under the equity method [note 3], is a plastic container manufacturing plant located in Vancouver, British Columbia, Canada. Holdings and its subsidiaries are referred to as “Richards Packaging”.

Foreign currency translation

The Canadian dollar is the functional currency for the Fund and its investments, except for Richards Packaging US, and therefore accounts in foreign currencies have been translated into Canadian dollars. Monetary items are recorded at exchange rates in effect at the statement of financial position dates and non-monetary items are recorded at the exchange rates in effect on the date of the transactions. Revenue and expenses are recorded at average exchange rates prevailing during the year. Gains and losses arising from foreign currency translations are included in profit from operations.

Richards Packaging US has a US dollar functional currency. All assets and liabilities are translated at exchange rates in effect on the statement of financial position dates. Revenue and expenses are translated at average exchange rates prevailing during the year. Effects of translation are included in unitholders' equity as accumulated other comprehensive loss.

Use of estimates

Preparation of financial statements required management to make estimates and assumptions which affect the reported amounts of assets, liabilities, revenue and expenses. By their nature, these estimates are

Richards Packaging Income Fund

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

[Cdn\$ thousands]

subject to measurement uncertainty and are reviewed periodically. Any adjustments deemed necessary are made prospectively in the period in which they are identified. Management believes that the testing for impairment of assets and deferred income taxes are critical accounting estimates that involve a high degree of judgment and complexity.

Revenue recognition

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

Operating leases

Rental payments and lease inducements are expensed on a straight line basis over the term of the leases.

Income taxes

The liability method to account for income taxes is utilized, with current taxes reflecting the expected income tax payable for the year and any adjustments in respect of amounts owing from previous years. Deferred tax assets and liabilities are determined based on temporary differences between the carrying values and the tax bases of assets and liabilities at substantively enacted tax rates that will be in effect when these differences are expected to reverse. Deferred tax assets are recognized only to the extent that it is more likely than not that the assets will be realized.

Inventory

Inventory is valued at the lower of cost and net realizable value. Cost of inventory includes purchase price plus inbound freight for distributed products and direct variable costs and related production overheads for manufactured products, determined on a first-in, first-out basis. If the carrying value exceeds the net realizable value a write-down is recognized.

Plant and equipment

Plant and equipment are initially recorded at cost. Repairs and maintenance are charged to income as incurred. Depreciation is computed over the remaining estimated useful lives as outlined below:

Manufacturing equipment	straight-line over 7 years
Moulds	straight-line over 4 years
Computer equipment	30% diminishing balance
Warehouse and office equipment	20% diminishing balance
Leasehold improvements	straight-line over lease term

Richards Packaging Income Fund

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

[Cdn\$ thousands]

Intangible assets

Intangible assets with a finite life are recorded at cost and are amortized on a straight-line basis over the period of expected future benefit. Customer relationships and contracts are amortized over 10 to 15 years, patents are amortized over 12 years and computer systems software is amortized over 5 years. Trademarks have indefinite lives and therefore are not amortized.

Goodwill

At the acquisition date, goodwill is recorded at the excess of the purchase price of an acquired business over fair value of the net assets acquired. Management monitors goodwill for the entire organization, a group of cash-generating units, and performs an impairment test on its goodwill annually, or more frequently if circumstances indicate a possible impairment.

Impairment testing of non-current assets

Non-current assets are reviewed annually for impairment or whenever events or changes in circumstances indicate that their carrying value may not be recoverable. For purposes of evaluating the recoverability, a test is performed using discounted future net cash flows. Should impairment exist, the loss would be measured as the difference between the carrying value and the recoverable amount and recognized by way of an additional current period charge. Management has not identified any such impairment losses to date.

Exchangeable shares

Exchangeable shares are classified as debt and carried at fair market value based upon the year end trading price of Units into which they are convertible [note 15]. Mark-to-market changes in value along with distributions are expensed during the period.

3. ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

International Financial Reporting Standards [“IFRS”]

The Canadian Accounting Standards Board required publicly accountable enterprises to adopt IFRS for interim and annual reporting purposes beginning January 1, 2011. The significant impacts of IFRS implementation includes the reclassification of *Exchangeable Shares* from *Non-controlling interests* under Cdn GAAP to *Debt* and the reversal of a portion of *Foreign currency loss* associated with the net investment in Richards Packaging US.

- i. Under Cdn GAAP, the income attributable to *Non-controlling interest* was deducted from net income. Under IFRS, *Exchangeable Shares* are treated as debt and the Fund recognizes the mark-to-market loss (gain) and distributions as financial items through profit or loss. Consistent with this change, the *Statement of Changes in Equity* has been added.

Richards Packaging Income Fund

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

[Cdn\$ thousands]

- ii. Under Cdn GAAP, the *Foreign currency loss* included a portion of the *Accumulated other comprehensive loss* associated with the decrease in the net investment in Richards Packaging US. Under IFRS, this portion is returned to the *Accumulated other comprehensive loss* account.

The Fund will avail itself of an exemption allowed under IFRS 1: prospective application of IFRS 3 *Business Combinations*. The impact of implementation of IFRS on the January 1 and December 31, 2010 balances, and for the year then ended, is outlined in note 21. There is no impact of the IFRS transition on business activities such as debt covenants, treasury activities and executive compensation.

Joint Venture – Vision

- iii. At year end the Fund chose to early adopt the new accounting standard for *Joint Arrangements – IFRS 11* retroactively which will result in Vision being recorded on an “equity accounting” basis rather than a “proportionate consolidation” basis. The impact is not material to the financial statements and has been outlined in note 21. As a result of early adopting IFRS 11, the Fund also early adopted *IFRS 10 – Consolidated financial statements*, *IFRS 12 – Disclosure of Interests in Other Entities*, *IAS 27 (as amended in 2011) – Separate Financial Statements* and *IAS 28 (as amended in 2011) – Investment in Associates and Joint Ventures*. There is no material impact to the financial statements as a result of adopting these additional new standards.

4. SEGMENTED INFORMATION

Richards Packaging’s operations consist of one reporting segment, principally the distribution of plastic and glass containers and associated closures. Geographic information is provided below and is determined based on the country of sales origination. No customer represents greater than 5% of total revenue.

	Canada		United States	
	2011 \$	2010 \$	2011 \$	2010 \$
Revenue	93,378	92,930	88,885	86,080
Non-current assets	48,681	54,360	51,579	51,598

Richards Packaging Income Fund

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

[Cdn\$ thousands]

5. EXPENSES AND STAFFING

	2011	2010
	\$	\$
Salaries and wages	17,509	17,588
Benefits	3,045	2,961
Bonuses	630	831
Long-term incentive plan awards	100	100
	21,284	21,480
Inventory sold	121,451	115,541
Selling, distribution and other costs	16,347	17,162
Lease expenses	3,692	3,446

Management is eligible to participate in the long-term incentive plan [the “LTIP”]. Awards for the cash reimbursement of Units purchased under the LTIP will vest over a three-year period, with one-third of the award vesting each year. The Trustees committed to annual funding of \$100 for three years starting in 2010. Total salaries and benefits for executive officers was \$1,291 [2010 - \$1,372].

6. INCOME TAXES

Significant components of deferred income taxes are as follows:

	2011	expense/ (income)	f/x ^{b)}	2010	expense/ (income)	f/x ^{b)}	2010 January 1
	\$	\$	\$	\$	\$	\$	\$
Deferred tax liabilities							
Plant and equipment	566	206	4	356	(47)	7	396
Customer relationships ^{a)}	7,431	(1,865)	93	9,203	(1,980)	(228)	11,411
Computer system software	232	(12)	5	239	239	—	—
Patents ^{a)}	505	(94)	—	599	(101)	—	700
Other	41	126	2	(87)	(182)	27	68
Deferred tax assets							
Loss carryforward for tax	(1,772)	1,894	—	(3,666)	(19)	—	(3,647)
Working capital	(384)	30	(9)	(405)	(36)	(21)	(348)
	6,619	285	95	6,239	(2,126)	(215)	8,580

a) Reversal of patents and customer relationships and contracts accounts will not give rise to income taxes.

b) f/x = foreign exchange differences

Undistributed profits of Richards Packaging US are considered to be reinvested indefinitely in their ongoing operations. Any distributions of such earnings would attract a 5% withholding tax. Income tax expense differs from the amount computed at statutory rates due to the various adjustments outlined below:

Richards Packaging Income Fund

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

[Cdn\$ thousands]

	2011 \$	2010 \$
Income before income taxes	9,436	5,859
Distributions not subject to income taxes in the Fund	—	(7,750)
Income (loss) subject to income taxes	9,436	(1,891)
Statutory tax rate	27.9%	30.2%
Income tax expense at statutory tax rate	2,628	(570)
Deferred income taxes	(285)	2,126
Current period adjustments		
Withholding tax	—	123
Foreign tax differential	(1,239)	(1,394)
Exchangeable shares		
Distributions and mark-to-market loss (gain)	(162)	1,142
Other items	111	96
Current income taxes	1,053	1,523

During 2007, the Income Tax Act was amended to change the manner in which most publicly traded income trusts, and distributions from such trusts, are taxed. Generally, the new rules apply an entity level tax on income earned by the trust at a rate approximately equal to the tax rate applicable to income earned by a Canadian public corporation, and treat the distributions of such income received by unitholders as taxable dividends received from a Canadian corporation. The new rules are effective in 2011.

7. CASH AND CASH EQUIVALENTS

	2011 \$	2010 \$	2010 January 1 \$
Cash at bank	2,435	1,225	3,605
Demand deposits	2,500	1,500	—
Issued and outstanding cheques	(1,061)	(1,746)	(1,858)
	3,874	979	1,747

Demand deposits are highly liquid investments with a term to maturity of three months or less at the date of purchase.

Richards Packaging Income Fund

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

[Cdn\$ thousands]

8. ACCOUNTS RECEIVABLE

	2011	2010	2010	2011	2010	2010
			January 1			January 1
	\$	\$	\$	\$	\$	\$
Current	—	—	—	12,123	10,375	10,437
Up to 60 days past due	—	—	—	6,120	7,559	7,903
61 – 90 days past due	—	—	—	547	550	483
Over 90 days past due	526	628	393	526	628	393
Trade receivables	526	628	393	19,316	19,112	19,216
Allowance for doubtful accounts ^{a)}				(318)	(479)	(589)
Supplier rebates				83	133	246
				19,081	18,766	18,873

a) Management recorded new provisions of \$62 [2010 – \$266] and wrote off \$251 [2010 – \$373]. The remaining non-cash change in the accounts reflects foreign exchange differences.

9. INVENTORY

	2011	2010	2010
			January 1
	\$	\$	\$
Goods purchased for resale	33,304	31,895	26,641
Goods in transit	3,094	1,961	2,718
Manufacturing raw materials	605	673	454
Manufactured finished goods	2,417	2,487	3,486
Reserve for slow moving inventory ^{a)}	(2,211)	(1,847)	(2,035)
	37,209	35,169	31,264

a) Management recorded a provision of \$1,526 [2010 – \$178] and recognized write-downs to net realizable value by \$1,162 [2010 – \$366].

10. PREPAID EXPENSES AND DEPOSITS

	2011	2010	2010
			January 1
	\$	\$	\$
Deposits for commitment to purchase goods	443	590	474
Rent and deposits	797	788	853
Insurance	28	72	85
Bank interest	144	156	134
Property taxes	266	177	7
Other deposits	460	505	412
	2,138	2,288	1,965

Richards Packaging Income Fund

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

[Cdn\$ thousands]

11. ACCOUNTS PAYABLE AND ACCRUALS

	2011	2010	2010 January 1
	\$	\$	\$
Trade payables	17,122	14,070	14,677
Staffing expenses ^{a)}	1,573	2,051	1,943
Professional fees	317	359	253
Leasehold obligation	414	436	433
Sales tax	379	505	186
Rebates	368	437	180
Other payables	1,130	929	972
	21,303	18,787	18,644

a) Management bonuses included in staffing at December 31, 2011 have been fully paid subsequent to year end.

Associated with an acquisition, Richards Packaging has a U.S.\$788 non-interest bearing demand loan owing to a previous shareholder.

12. PLANT AND EQUIPMENT

	Manufacturing Equipment	Moulds	Warehouse & office	Computer equipment	Leaseholds	
	\$	\$	\$	\$	\$	\$
January 1, 2010						
Carrying value	4,396	4,359	1,061	1,179	1,022	12,017
Accumulated Depreciation	(3,052)	(3,337)	(568)	(807)	(343)	(8,107)
Net book value	1,344	1,022	493	372	679	3,910
Additions	246	675	40	95	258	1,314
Depreciation	(436)	(503)	(92)	(129)	(164)	(1,324)
Foreign exchange differences	(83)	—	—	—	3	(80)
December 31, 2010						
Carrying value	4,559	5,034	1,101	1,274	1,283	13,251
Accumulated Depreciation	(3,488)	(3,840)	(660)	(936)	(507)	(9,431)
Net book value	1,071	1,194	441	338	776	3,820
Additions	191	650	36	58	9	944
Depreciation	(328)	(504)	(53)	(129)	(173)	(1,187)
Foreign exchange differences	133	(65)	4	(5)	(38)	29
December 31, 2011						
Carrying value	4,883	5,619	1,141	1,327	1,254	14,224
Accumulated Depreciation	(3,816)	(4,344)	(713)	(1,065)	(680)	(10,618)
Net book value	1,067	1,275	428	262	574	3,606

Richards Packaging Income Fund

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

[Cdn\$ thousands]

13. INTANGIBLE ASSETS AND GOODWILL

	Customer relationships	Patents	Trade- marks	Computer software	Intangible assets	Goodwill
	\$	\$	\$	\$	\$	\$
January 1, 2010						
Carrying value	63,347	3,800	3,370	1,524	72,041	72,010
Accumulated amortization	(31,720)	(1,428)		(1,379)	(34,527)	
Net book value	31,627	2,372	3,370	145	37,514	72,010
Additions		14		641	655	
Amortization	(5,949)	(323)		(213)	(6,485)	
Foreign exchange differences	(474)	(98)	(58)	54	(576)	(1,620)
December 31, 2010						
Carrying value	62,873	3,716	3,312	2,219	72,120	70,390
Accumulated amortization	(37,669)	(1,751)		(1,592)	(41,012)	
Net book value	25,204	1,965	3,312	627	31,108	70,390
Additions		5		85	90	
Amortization	(5,949)	(323)		(168)	(6,440)	
Foreign exchange differences	108	43	25	56	232	698
December 31, 2011						
Carrying value	62,981	3,764	3,337	2,360	72,442	71,088
Accumulated amortization	(43,618)	(2,074)		(1,760)	(47,452)	
Net book value	19,363	1,690	3,337	600	24,990	71,088

Intangible assets and Goodwill are not deductible for tax purposes. Goodwill has been assessed by calculating recoverable amount determined based on the value in use. Three year cash flow budgets, prepared using growth rates experienced in the industry and approved by the Board, were used with the application of a pre-tax discount rate of 15%. For periods beyond the budget period, cash flows were extrapolated using long term average growth rates of 1.1%. Reasonably possible changes in key assumptions would not cause the recoverable amount to fall below the carrying value.

14. REVOLVING AND TERM DEBT

Richards Packaging has available both revolving and term debt credit facilities, which were refinanced on May 31, 2010 to extend the term by 3 years and lower the interest rate by 0.5% on the term facility and 1.0% on the revolving facility. The number of lenders in the bank syndicate was reduced from three to two as the old debt facilities were extinguished and new credit facilities were established. As a result, \$214 of unamortized debt issue costs were expensed, \$518 of associated fees expensed and availability under the

Richards Packaging Income Fund

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

[Cdn\$ thousands]

revolving facility reduced from \$7,000 to \$5,000. The revolving credit facility bears interest at the prime rate plus a premium of 1.0% to 1.75%. The effective interest rate at December 31, 2011 was 3.6% [2010 – 3.6%]. There was no amount drawn on the facility at December 31, 2011 or 2010. The term facility of \$44,500 [2010 – \$48,000] bears interest at the bankers' acceptance borrowing plus a premium of 2.0% to 2.75%. The effective interest rate at December 31, 2011 was 3.9% [2010 – 3.3%]. Repayments of term debt of \$3,500 were made during the year ended December 31, 2011.

Financial expenses for the years ended December 31 were as follows:

	2011	2010
	\$	\$
Interest expense	1,920	1,833
Credit card fees	604	578
Credit facility charges	127	196
Debt fee accretion	—	835
	2,651	3,442

The banking syndicate has a first charge over all of Richards Packaging's assets as collateral for the revolving and term credit facilities. Richards Packaging is in compliance with all covenants [note 16].

15. UNITS AND EXCHANGEABLE SHARES

<i>Number outstanding</i>	Units basic	Weighted average	Exchangeable shares	Units diluted	Weighted average
January 1, 2010	10,090,216	10,111,490	1,775,033	11,865,249	11,903,452
Share conversion	715,990		(715,990)		
Units purchased	(62,736)			(62,736)	
December 31, 2010	10,743,470	10,054,973	1,059,043	11,802,513	11,808,428
December 31, 2011	10,743,470	10,743,470	1,059,043	11,802,513	11,802,513

The dilutive impact on income per Unit of the mark-to-market loss (gain) and distributions to exchangeable shareholders is \$0.11 per Unit [2010 – anti-dilutive result reverts back to basic income per Unit].

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

Richards Packaging Income Fund

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

[Cdn\$ thousands]

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. The Fund is utilizing the puttable instrument exemption using the criteria in IAS 32, *Financial Instruments, Presentation*, to classify the Units as equity.

The Fund initiated a normal course issuer bid on March 10, 2011 to purchase up to 200,000 Units prior to March 9, 2012. During the year, no Units were purchased [2010 – 62,736 at an average price of \$7.25/Unit].

Exchangeable shares

Exchangeable shares were issued by Richards Packaging to officers on the initial public offering and in connection with two business acquisitions. The exchangeable shares issued by Holdings are redeemable on the fifth anniversary of their issue date, 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 issued by Richards Packaging Holdings (US) Inc. are retractable on a limited basis by the shareholder in increments of up to U.S.\$2,000 at the end of each issue anniversary; however, the Fund has the option to settle the redemption in cash. Exchangeable shares carry the right to vote at any meeting that unitholders are entitled to vote on the same basis. During the year, there were no share conversions [2010 - \$5,789].

Distributions

Distributions are made monthly to unitholders of record on the last business day of each month and paid on the 14th day of the following month. Monthly distributions in 2011 were \$704, or 6.55¢ per Unit. Distributions in 2010 began at \$659 and ended at \$704, 6.55¢ per Unit, reflecting unit buyback activity by the Fund and the conversion of exchangeable shares. The board of Trustees approved a reduction in the capital account for distributions made for 2011, and \$9,938 to reflect the cumulative return of capital as at December 31, 2010 that has been distributed to the unitholders since the inception of the Fund.

Distributions paid to exchangeable shareholders are not subordinated to distributions to unitholders and are declared on the same basis net of applicable taxes. Distributions are made monthly to shareholders of record on the last business day of each month and paid on the 14th day of the following month.

16. CAPITAL STRUCTURE

Capital consists of unitholders' equity, exchangeable shares and secured credit facilities. Capital levels are maintained to meet the following objectives: optimizing the cost of capital at acceptable risk levels while providing an appropriate return to its unitholders and shareholders; balancing the interests of equity shareholders, exchangeable shareholders and debt holders; maintaining compliance with financial covenants; and preserving financial flexibility to benefit from potential opportunities as they arise. The leverage ratio covenant was 2.75 and the ratio of December 31, 2011 was 2.20 [2010 – 2.16]. In addition, the Fund is required to maintain a fixed charge coverage ratio of greater than 2.0 times and a minimum net worth of \$70,000.

Richards Packaging Income Fund

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

[Cdn\$ thousands]

Management continually assesses the adequacy of its capital structure and makes adjustments in light of changes in economic conditions and the risk characteristics of underlying assets. Adjustments may include changes in distributions, purchases of units for cancellation pursuant to normal course issuer bids, issues of new shares and/or Units, repayments or borrowings under the credit facilities and refinancing the debt to replace existing debt with different characteristics.

17. RELATED PARTY TRANSACTIONS AND JOINT VENTURE

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

	2011	2010
	\$	\$
Leases of facilities from entities related to certain officers	471	460
Product purchases from Vision	6,069	6,951

Richards Canada owns a 50% interest in a joint venture, Vision. Since all of the sales of Vision are to Richards Packaging, financial information relating to the joint venture presented below reflects 100% of transactions and balances:

	2011	2010	2010		2011	2010	2010
	\$	\$	January 1		\$	\$	January 1
	\$	\$	\$		\$	\$	\$
Statement of financial position							
Assets				Liabilities			
Current assets	1,137	1,356	1,643	Current liabilities	421	409	751
Plant and equipment	433	421	540				
Deferred income taxes	—	—	39				
Total assets	1,570	1,777	2,222	Net assets	1,149	1,368	1,471
Statement of net income							
Revenue					6,069	6,951	
Expenses					6,290	7,053	
Net loss					(221)	(102)	

18. FINANCIAL INSTRUMENTS

Fair value

Cash and cash equivalents, accounts receivable, accounts payable and accruals, distributions payable and due to previous shareholder are all short-term in nature and, as such, their carrying values approximate fair values. Cash and cash equivalents and accounts receivable are classified as loans and receivables and

Richards Packaging Income Fund

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

[Cdn\$ thousands]

measured at amortized cost. All financial liabilities excluding exchangeable shares are classified as other financial liabilities measured at amortized cost.

The fair value of term debt approximates the carrying value as it bears interest at rates comparable to current market rates that would be used to calculate fair value. Exchangeable shares are recorded at fair value, determined by the year end trading price of Units into which they are convertible, with changes in value recorded through profit or loss.

Credit risk

Financial assets exposed to credit risk consist primarily of trade receivables arising from the sale of goods. Concentration of credit risk is limited due to the large number of customers and geographical dispersion. As at December 31, 2011, no customer represented 5% or more of accounts receivable or sales.

Credit quality is assessed prior to establishing customer accounts. Management continuously monitors the collection of overdue accounts. For customers with overdue accounts, internal collection staff takes appropriate action, including the placement of accounts on hold, with third party collection or legal action taken. On a quarterly basis, the allowance for doubtful accounts is reviewed by management. The allowance for doubtful accounts as at December 31, 2011 is sufficient to cover impaired accounts *[note 8]*.

Inventory obsolescence risk

Richards Packaging is exposed to inventory obsolescence due to customer insolvency when they have unique packaging, maturing product life cycles for stock items and large purchases due to economic order quantities. Management continually monitors over-aged inventory with a focus to realize value before obsolescence occurs. On a quarterly basis, the reserve for inventory obsolescence is reviewed by management. The reserve as at December 31, 2011 is sufficient to cover losses due to inventory obsolescence *[note 9]*.

Liquidity risk

The approach to managing liquidity risk is to ensure that sufficient funds are available to meet financial obligations as they come due *[notes 11, 19]*. This is achieved through a combination of cash balances *[note 7]*, availability of credit facilities *[note 14]*, surplus cash flow from operations, distribution policy and matching the maturities of financial assets and liabilities.

Interest rate risk

Exposure to interest rate risk arises due to variable interest rates on the revolving and term debt credit facilities. A 1.0% movement in interest rates would have impacted net income by \$305 [2010 – \$329].

Richards Packaging Income Fund

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

[Cdn\$ thousands]

Foreign currency risk

Exposure to U.S./Cdn. currency fluctuations arises on cross-border transactions and on the translation of cash flows of Richards Packaging US. A foreign currency gain of \$20 has been recorded for the year ended December 31, 2011 [2010 – loss of \$16] relating to cross-border transactions.

19. COMMITMENTS AND CONTINGENCIES

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

	Related parties	Other	Total
	\$	\$	\$
2012	474	3,267	3,741
2013	478	3,004	3,482
2014	482	2,163	2,645
2015	486	1,460	1,946
2016	428	1,134	1,562
Thereafter	1,699	1,825	3,524

In the ordinary course of business, Richards Packaging 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.

Legal costs to prosecute a patent, trademark and copyright infringement case are expensed as incurred, with any potential gain on settlement to be recognized on realization.

20. ADDITIONAL CASH FLOW INFORMATION

The net change in working capital consists of the following:

	2011	2010
	\$	\$
Accounts receivable	(21)	(299)
Inventory	(1,602)	(5,018)
Prepaid expenses and deposits	168	(383)
Accounts payable and accruals	2,340	551
Income taxes recoverable	383	(722)
	1,268	(5,871)

Financial expenses and income taxes paid during the year were \$2,644 [2010 – 2,633] and \$636 [2010 – 2,213], respectively.

Richards Packaging Income Fund

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

[Cdn\$ thousands]

21. TRANSITION TO IFRS

The effect of the Fund's transition to IFRS as described in note 3 is as follows:

STATEMENT OF NET INCOME AND COMPREHENSIVE INCOME

For the year ended December 31, 2010

[Consolidated]

Cdn\$ thousands	Notes	IFRS \$	Vision \$	Adj's \$	Cdn GAAP \$
Revenue		179,010			179,010
Cost of products sold	3(iii)	155,230	138		155,092
Administrative expenses	3(iii)	10,209	(198)		10,407
Foreign currency loss	3(ii)	16		—	16
Patent defense legal costs		383			383
Profit from operations		13,172	60		13,112
Financial expenses	3(iii)	3,442	(4)		3,446
Exchangeable shares					
Mark-to-market loss	3(i)	2,360		2,360	
Distributions	3(i)	1,427		1,427	
Share of loss - Vision	3(iii)	84	84		
Income before income taxes		5,859	(20)	(3,787)	9,666
Income tax expense (income)					
Current taxes		1,523			1,523
Deferred taxes	3(iii)	(2,126)	(20)		(2,106)
		(603)	(20)		(583)
Non-controlling interests	3(i)			(1,483)	1,483
Net income for the year	3(i)	6,462	—	(2,304)	8,766
Basic income per Unit		\$0.64			\$0.87
Diluted income per Unit		\$0.64			\$0.87
Other comprehensive losses					
Richards Packaging US					
Currency translation adjustment	3(i),(ii)	(2,994)		(340)	(2,654)
		(2,994)		(340)	(2,654)
Comprehensive income for the year		3,468		(2,644)	6,112

Richards Packaging Income Fund

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

[Cdn\$ thousands]

STATEMENTS OF FINANCIAL POSITION

As at January 1 and December 31, 2010

[Consolidated]

Cdn\$ thousands	Notes	Dec. 31			Jan. 1				
		IFRS \$	Vision \$	Adj's \$	IFRS \$	Vision \$	Adj's \$		
Current Assets									
Cash and cash equivalents	3(iii)	979	(165)		1,144	1,747	(324)	2,071	
Accounts receivable		18,766			18,766	18,873		18,873	
Inventory	3(iii)	35,169	(18)		35,187	31,264	(25)	31,289	
Prepaid expenses and deposits	3(iii)	2,288	(77)		2,365	1,965	(45)	2,010	
Income taxes recoverable		700			700	10		10	
		57,902	(260)		58,162	53,859	(394)	54,253	
Current Liabilities (excluding debt)									
Accounts payable and accruals	3(iii)	(18,787)	(169)		(18,618)	(18,644)	(40)	(18,604)	
Distributions payable		(773)			(773)	(780)		(780)	
Due to previous shareholder		(784)			(784)	(825)		(825)	
		(20,344)	(169)		(20,175)	(20,249)	(40)	(20,209)	
WORKING CAPITAL	3(iii)	37,558	(429)		37,987	33,610	(434)	34,044	
Non-current Assets									
Plant and equipment	3(iii)	3,820	(211)		4,031	3,910	(270)	4,180	
Investment - Vision	3(iii)	640	640			724	724		
Intangible assets		31,108			31,108	37,514		37,514	
Goodwill		70,390			70,390	72,010		72,010	
		105,958	429		105,529	114,158	454	113,704	
Non-current Liabilities (excluding debt)									
Deferred income taxes	3(iii)	(6,239)			(6,239)	(8,580)	(20)	(8,560)	
Non-controlling interest	3(i)			8,575	(8,575)		15,081	(15,081)	
NET OPERATING ASSETS		137,277	—	8,575	128,702	139,188	—	15,081	124,107
Debt									
Term debt		48,000			48,000	47,402		47,402	
Exchangeable shares									
Current	3(i)	5,330		5,330		6,857		6,857	
Non-current	3(i)	3,867		3,867		5,718		5,718	
		57,197		9,197	48,000	59,977		12,575	47,402
Equity									
Unitholders' capital	3(i)	89,745		(484)	90,229	94,349		94,349	
Deficit	3(i)	(2,673)		25	(2,698)	(11,140)	2,329	(13,469)	
Other comprehensive loss	3(ii)	(6,992)		(163)	(6,829)	(3,998)	177	(4,175)	
		80,080		(622)	80,702	79,211	2,506	76,705	
CAPITAL		137,277		8,575	128,702	139,188	15,081	124,107	

Richards Packaging Income Fund

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

[Cdn\$ thousands]

STATEMENT OF CASH FLOWS

For the year ended December 31, 2010

[Consolidated]

Cdn\$ thousands	Notes	IFRS \$	Vision \$	Adj's \$	Cdn GAAP \$
OPERATING ACTIVITIES					
Net income for the year	3(i)(iii)	6,462		(2,304)	8,766
Non-controlling interest	3(i)			(1,483)	1,483
Add (deduct) items not involving cash					
Plant and equipment depreciation	3(iii)	1,324	(111)		1,435
Intangible asset amortization		6,485			6,485
Debt accretion		316			316
Exchangeable shares - Mark-to-market loss	3(i)	2,360		2,360	
Share of loss - Vision	3(iii)	84	84		
Deferred income taxes	3(iii)	(2,126)	(20)		(2,106)
		14,905	(47)	(1,427)	16,379
Changes in non-cash working capital	3(iii)	(5,871)	154		(6,025)
Cash provided by operating activities		9,034	107	(1,427)	10,354
INVESTING ACTIVITIES					
Additions to plant and equipment	3(iii)	(1,314)	52		(1,366)
Additions to intangible assets		(655)			(655)
Cash used in investing activities		(1,969)	52		(2,021)
FINANCING ACTIVITIES					
Repayment of term debt		(47,719)			(47,719)
Proceeds from term debt		48,000			48,000
Purchase of trust units for cancellation		(455)			(455)
Distributions paid to exchangeable shareholders	3(i)			1,427	(1,427)
Distributions paid to unitholders		(7,890)			(7,890)
Cash used in financing activities		(8,064)		1,427	(9,491)
Foreign currency gain				(231)	231
Net cash flows for the year		(999)	159	(231)	(927)
Cash and cash equivalents, beginning of year	3(iii)	1,747	(324)		2,071
Foreign currency translation differences		231		231	
Cash and cash equivalents, end of year		979	(165)		1,144

Richards Packaging Income Fund
UNITHOLDER INFORMATION

Trustees

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

Timothy McKernan
President, McKernan Packaging

Corporate Information

Head office

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Mississauga, Ontario L5T 2M7
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Auditors

PricewaterhouseCoopers LLP
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18 York Street, Suite 2600
Toronto, Ontario M5J 0B2

Transfer agent and registrar

Canadian Stock Transfer Company
acts as the Administrative Agent for CIBC
Mellon Trust Company
P.O. Box 700
Station B
Montreal, Quebec H3B 3k3
www.canstockta.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.tmx.com

Annual meeting

Friday May 11, 2012 at 9:30 a.m.
Brookfield Place
181 Bay Street, Suite 2500
Toronto, Ontario M5J 2T7