

## Richards Packaging Income Fund

### MANAGEMENT'S DISCUSSION AND ANALYSIS

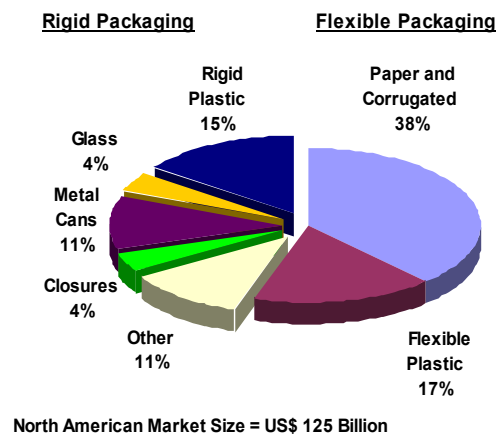
[expressed in thousands, except where otherwise indicated  
and per unit amounts]

*This management's discussion and analysis of Richards Packaging Income Fund ("MD&A") for the 2004 year is dated March 28, 2005 should be read in conjunction with the attached audited consolidated financial statements for the period April 7 to December 31, 2004, the amended quarterly reports for the periods ended June 30 and September 30, 2004, the Prospectus of Richards Packaging Income Fund (the "Prospectus") dated March 30, 2004 and the Annual Information Form dated March 28, 2005. Results are reported in Canadian dollars and have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") on a consistent basis with the annual financial statements contained in the Prospectus.*

### North American Packaging Industry

Packaging is pervasive, as almost all products are delivered in some form of packaging. The properties of this packaging fulfill not only the practical, transportability, protection functions and shelf life, but also serves to differentiate products and communicate branding messages such as quality, safety and consumer satisfaction. The latest ergonomically complex packaging components' design reflects significant investment in market research and product development. To meet the needs of this changing marketplace, the packaging industry has segmented into different product types outlined in the adjacent chart. Growth in 2004 was 3% for plastics, 2% for glass and flat for metal.

#### Industry Segmentation by Product Type



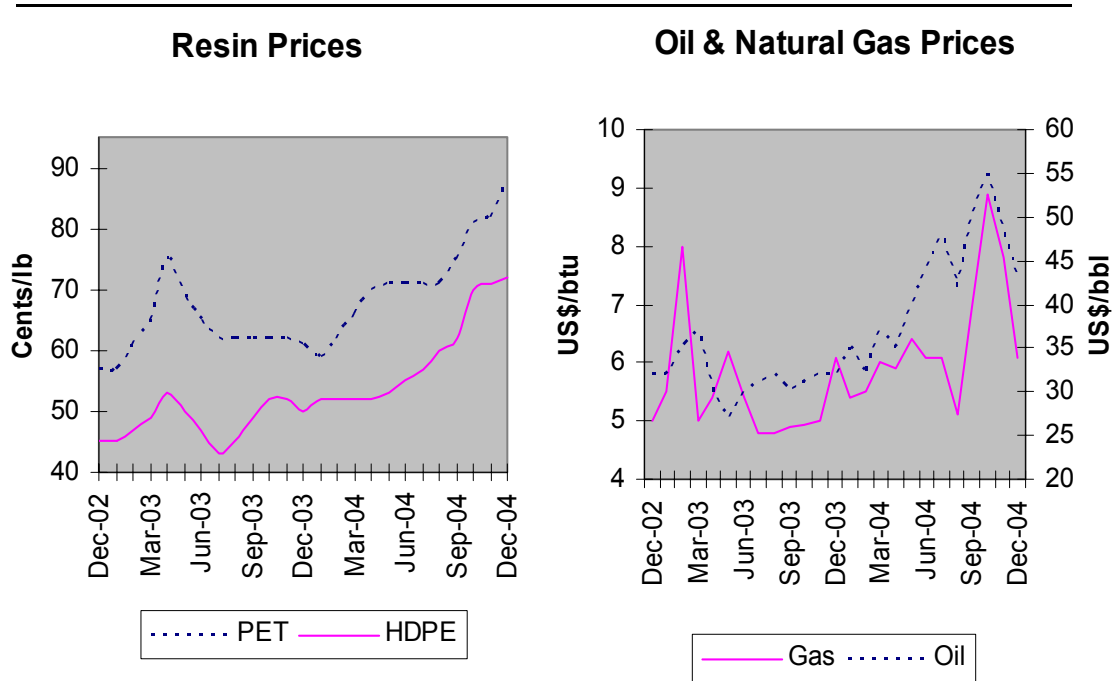
As large product marketers have consolidated, packaging companies have embarked on a parallel industry consolidation strategy to meet their needs. Concentration is high in the glass, metal and paper segments with 3 to 5 companies controlling approximately 90% of their market, and medium in the rigid plastic, flexible plastic and closure segments with 10 to 15 companies controlling 50 to 60% of their market. In 2004 there were 343 acquisitions in the global packaging industry, with an average value of US\$50 million in line with the activity level of the previous few years. For each of the last two years the top twenty companies have spent \$1.6 billion on capital at the cautious rate of 4% of revenue. At the same time excess capacity is continually being addressed with 3 glass plants, one metal plant and numerous plastic plant closures in 2004. Overall sales growth for these companies averaged 6% for the last 2 years.

As we enter 2005, fuel costs and resin pricing remain the biggest wild cards for the industry. Energy prices rose rapidly in 2004 affecting glass furnace economics, resin costs and freight costs. Unlike the roller coaster ride resin took in 2003, 2004 has been straight up (15 to 25%) with relief likely in 2005<sup>5</sup>. Financing structures in place at most packaging companies are similar to that of an income trust, with significant use of 7 to 13% debt and free cash flow<sup>4</sup> at 4%, which ensures that a disciplined approach to passing cost increases through will remain in place. Clear evidence is that for the top twenty companies EBITDA<sup>1</sup> as a percent of sales has remained at a healthy 13% overall for 2004.

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### Description of the Business and Fund Profile

Within the North American Packaging industry a \$3 billion distributor based market for rigid packaging exists to serve regional small to medium-sized premium product marketers. Approximately 60 distributors provide marketing and package design expertise, source multiple packaging components from around the world, aggregate orders ensuring access to large manufacturers and provide inventory and logistics support to deliver a complete packaging solution. Concentration in this segment is low with the top 5 companies controlling 36% of their market. Richards Packaging is the largest packaging distributor in Canada and the third largest in North America. Other distributors consist mainly of local or regional family-owned companies who specialize to meet the unique needs of their customers.

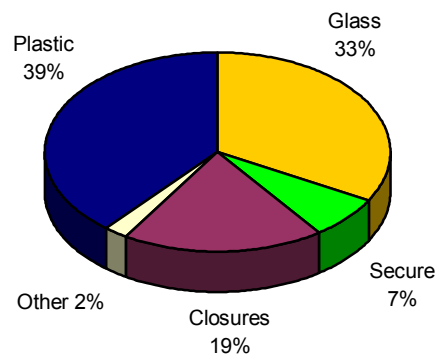
Richards Packaging Inc. serves a wide customer base that is comprised of over 6,000 regional food, beverage, cosmetic, specialty chemical, pharmaceutical and other companies. The primary source of revenue is from the distribution of over 5,000 different types of packaging containers and related components sourced from over 600 suppliers and its 3 dedicated manufacturing facilities. In addition to providing its customers with a wide range of packaging solutions, the Company provides design and development services and comprehensive logistics management through 12 sales offices and 3 agency locations.

# Richards Packaging Income Fund

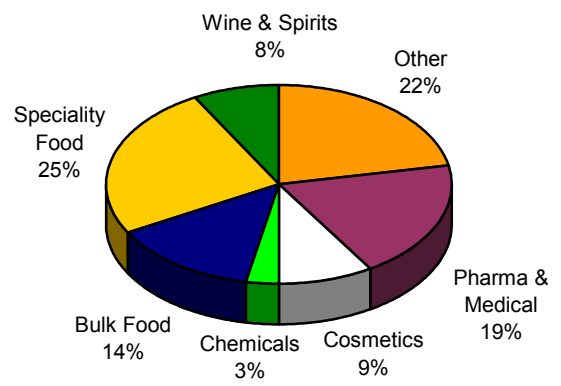
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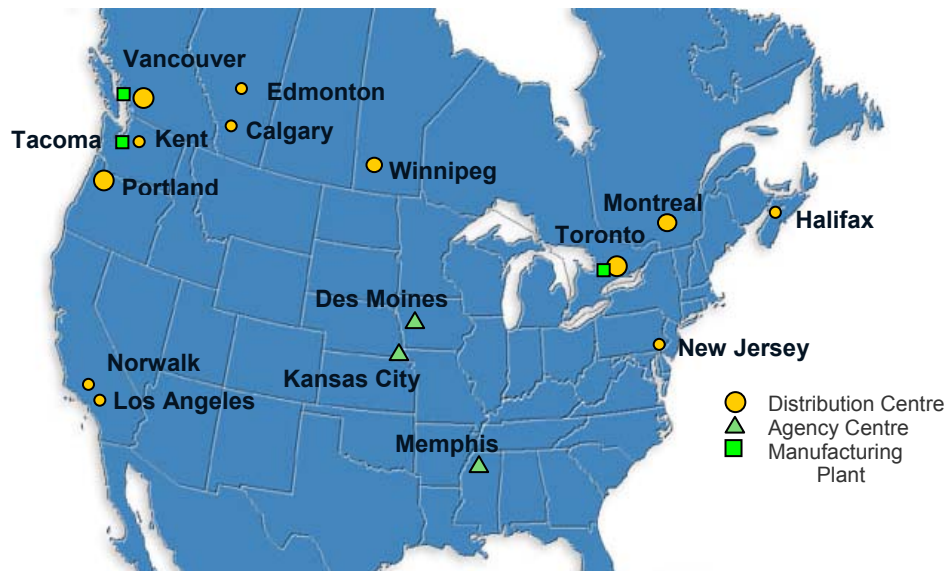
### Revenue by Product



### Revenue by End User



## Richards Packaging Locations



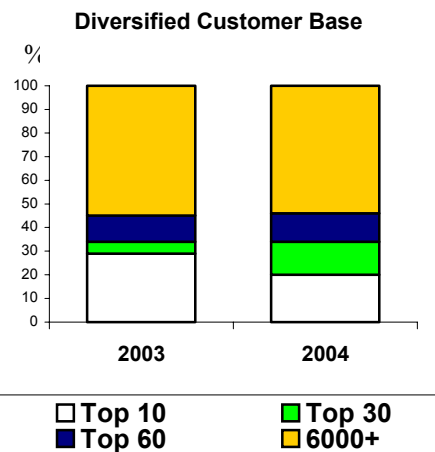
## Richards Packaging Income Fund

### MANAGEMENT'S DISCUSSION AND ANALYSIS

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The cornerstones of Richards Packaging strategy include:

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



Management launched a strategic repositioning of the Company in the marketplace to significantly reduce the concentration of large customers and focus on customers with the highest value for the unique product offering and services we provide.

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

### Highlights and Selected Financial Information

Highlights of the overall Fund performance for the nine months ended December 31, 2004 include:

- Launching of the Fund with an initial public offering raising \$85.7 million to facilitate the acquisition of Richards Packaging Inc.
- Completed 3 strategic acquisitions which should contribute \$13 million to revenue, \$1.5 million to EBITDA and \$1.2 million of distributable cash<sup>5</sup> on an annual basis.
- Organic growth of 3.9%, over the same period in 2003, partially offsetting the impacts of foreign exchange and strategic product repositioning.
- Increased the EBITDA<sup>1</sup> as a percent of sales to 9.5%, just below our target 10% rate, by continuing the Company's marketing focus on higher value added products and services.
- Paid monthly distributions of \$0.0854 per unit to yield a 10.25% annualized return. Announced an increase to \$0.0935 per unit beginning with the February 15<sup>th</sup> payment.
- Increased distributable cash flow<sup>2</sup> by \$0.09 per unit or 9.2% from three quarters of the annual target outlined in the Prospectus. Given the cumulative distributions declared of \$0.256 per unit, the implied payout ratio<sup>3</sup> was 89%.

## Richards Packaging Income Fund

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- Benefited from a foreign currency fixed rate agreement at a rate of Cdn/US\$0.73 through to September 2005 for substantially all of the exposure inherent in distributable cash from US operations.

This is the third reporting period of the Fund since its inception, and as such the attached consolidated financial statements do not have comparative figures. The MD&A covers the three months ended December 31, 2004 and the period from April 7 to December 31, 2004, (generally referred to in this MD&A as "the fourth quarter" and "the nine months ended December 31, 2004" respectively). Where possible selective comparative information for the periods in 2003 is provided from the financial records of the Company and the pro forma information outlined in the Prospectus. The following table sets out selected consolidated financial information of the Fund:

	Qtr. 2		Qtr. 3		Qtr. 4		Nine months	
	2004	2003	2004	2003	2004	2003	2004 <sup>(1)</sup>	2003 <sup>(2)</sup>
	\$	\$	\$	\$	\$	\$	\$	\$
<b>Income Statement Data:</b>								
Revenue.....	37,917	39,950	39,803	39,771	35,598	38,545	113,318	118,266
EBITDA <sup>1</sup> .....	3,534	3,451	3,989	4,095	3,451	3,813	10,974	11,359
<i>Basic &amp; diluted per unit</i>	<i>\$0.330</i>	<i>\$0.322</i>	<i>\$0.372</i>	<i>\$0.382</i>	<i>\$0.321</i>	<i>\$0.356</i>	<i>\$1.023</i>	<i>\$1.060</i>
Net income.....	284		3,102		2,299		5,685	
<i>Basic &amp; diluted per unit ..</i>	<i>\$0.026</i>		<i>\$0.290</i>		<i>\$0.214</i>		<i>\$0.507</i>	
<b>Balance Sheet Data:</b>								
Total assets.....	162,920		157,900		163,693			
Bank debt.....	24,599		23,194		25,673			
<b>Cash Flow Statement Data:</b>								
Distributions per unit and dividends per share.....	\$0.233		\$0.256		\$0.256		\$0.745	
Payout ratio <sup>3</sup> .....	85%		87%		103%		91%	

(1) Amounts are derived from the audited consolidated financial statements.

(2) Amounts are derived from unaudited historical financial statements of the Company.

The distribution policy is set by the Trustees after giving careful consideration to the projected cash flows of the Fund, the long-term sustainability of the distribution level and the balance of risks and future prospects of the Fund. This policy is not set based upon net income due to various non-cash accounting charges that depress net income such as amortization, unrealized gains or losses on financial instruments and future income taxes. Although the Fund's payout ratio exceeded distributable cash flow during the fourth quarter, the 89% ratio for the nine months ending December 31, 2004 is within the Funds target payout ratio of 90%.

## Richards Packaging Income Fund

### MANAGEMENT'S DISCUSSION AND ANALYSIS

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#### Review of Operations

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

Apr. 7 to Dec. 31	Qtr. 2		Qtr. 3		Qtr. 4		Nine months	
	2004	2003	2004	2003	2004	2003	2004 <sup>(1)</sup>	2003 <sup>(2)</sup>
	\$	\$	\$	\$	\$	\$	\$	\$
<b>Revenue</b> .....	37,917	39,950	39,803	39,771	35,598	38,545	113,318	118,266
Cost of products sold.....	32,493	34,828	33,935	33,946	30,494	33,002	96,922	101,776
Gross profit.....	5,424	5,122	5,868	5,825	5,104	5,543	16,396	16,490
	14.3%	12.8%	14.7%	14.6%	14.3%	14.4%	14.5%	13.9%
Foreign exchange gain...	—	—	—	—	449	—	449	—
Expenses.....	1,890	1,671	1,879	1,730	2,102	1,730	5,871	5,131
<b>EBITDA</b> <sup>1</sup> .....	3,534	3,451	3,989	4,095	3,451	3,813	10,974	11,359
<b>Net Income</b> .....	284	—	3,102	—	2,299	—	5,685	—

(1) Amounts are derived from the audited consolidated financial statements.

(2) Amounts are derived from unaudited historical financial statements of the Company.

Revenue decreased by \$3.0 million for the fourth quarter, or 7.6%, and by \$4.9 million for the nine months ended December 31, 2004, or 4.2%, from the same periods in 2003 respectively. During the fourth quarter, the 3 acquisitions added \$1.1 million which was fully offset by the sales mix transition program to a higher concentration of strategic higher margin products (\$1.3 million) and translation of the US operations with the Canadian dollar strengthening by US/Cdn\$0.059 to US/Cdn\$0.819 (\$1.1 million). Disruptions caused by the launch of the new computer systems resulted in a revenue loss of \$0.9 million.

Although the sales mix strategic repositioning program is complete it will continue to influence the comparative results into the first quarter of 2005, beyond which the foreign exchange translation effect should be offset by the acquisitions and organic revenue growth which is expected at the historic rate of between 3 to 5% per annum<sup>5</sup>.

Cost of products sold decreased by \$3.0 million for the fourth quarter, or 9.0%, and by \$5.0 million for the nine months ended December 31, 2004, or 5.2%, from the same periods in 2003 respectively. The impact of the increase in the Canadian dollar from US/Cdn\$0.760 to US/Cdn\$0.819 during the fourth quarter was fully offset by the margin improvement from strategic products. The acquisitions contributed \$0.2 million to margin which was fully offset by the \$0.2 million margin loss from the systems disruption. For the nine months ended December

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31, 2004 the decreased cost of products sold resulted in a gross profit percent improvement of 1.0%, which reflected the increase in the Canadian dollar from US/Cdn\$0.733 to US/Cdn\$0.770 as well as a shift in concentration to higher margin products such as Asian glass, pharmaceuticals and specialty plastic packaging. The volatility in the price of resins did not have a material impact on margins as a result of management's practice of immediately passing through increases to customers.

General and administrative expenses for the fourth quarter increased by \$0.4 million, and for the nine months ended December 31, 2004 increased \$0.8 million, over the same periods in 2003 respectively. The increase is due mainly to public company costs, such as directors' fees, professional fees, insurance, filing fees and additional staff. This is consistent with management's expectation as described in the Prospectus.

EBITDA decreased by \$0.4 million for both the fourth quarter and the nine months ended December 31, 2004, from the same periods in 2003. As a percent of sales, EBITDA was 9.7% for both the fourth quarter and the nine months ended December 31, 2004. Changes were a result of the factors referred to above and foreign exchange gain of \$449, or 1.4% on sales, from our internal hedging program on cross-boarder transactions.

Other expenses of the Fund for the fourth quarter included \$2.1 million of amortization, \$0.4 million of interest, a \$1.1 million foreign exchange gain on translation of long-term debt and a \$0.4 million unrealized gain on financial instruments. For the nine months ended December 31, 2004 other expenses included \$7.0 million of amortization, \$1.2 million of interest, a \$1.8 million foreign exchange gain on translation of long-term debt and a \$0.4 million unrealized gain on financial instruments. The only cash items in other expenses represent the interest paid by the Company.

Amortization of \$7.1 million for the nine months ended December 31, 2004 was mainly comprised of \$5.1 million for intangibles, which represents a charge of \$1.5 million for backlog customer orders on April 7, 2004 and the ongoing charge of \$1.3 million per quarter for customer relationships and contracts. The remaining amortization amounts consisted of deferred financing fees of \$0.5 million that will continue for the 3-year term of the debt facilities and capital asset amortization of \$0.5 million per quarter, which is approximately twice the company's maintenance capital expenditure spending requirement.

The term and acquisition loans outstanding at December 31, 2004 total US\$21.2 million, which gave rise to the unrealized foreign currency translation gain of \$1.8 million for the nine months ended December 31, 2004. On April 7, 2004 the exchange rate was US/Cdn\$0.766, while during the period it dropped as low as US/Cdn\$0.715 and closed on December 31, 2004 at US/Cdn\$0.831. The Company has borrowed mainly in US dollars to partially match the US dollar interest obligations with the earnings it receives from US operations. It is management's intention to continue to borrow funds denominated in US dollars for the foreseeable future<sup>5</sup>.

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Current income taxes are negligible as they reflect the tax deductions inherent in distributions to unitholders. The Fund and its' subsidiaries have \$11.7 million of initial public offering and financing fees available to shield future income taxes, of which \$1.7 million was realized in the nine months ended December 31, 2004.

Net income for the fourth quarter was \$2.3 million, and for the nine months ended December 31, 2004 was \$5.7 million, which represented \$0.214 and \$0.530 per unit on a basic and diluted basis respectively. A total of 10,256,327 Units and 455,185 Richards Holdings Inc. ("Holdings") shares, exchangeable into Units on a one-for-one basis, were outstanding throughout the period. On November 30, 2004 an additional 69,500 exchangeable shares were issued at \$10 per share as partial consideration for one of the three acquisitions.

### Distributable Cash Flow<sup>2</sup>

Management believes that the pro forma distributable cash flow for the year ended December 31, 2003, as presented in the Prospectus, provides the most appropriate source of comparative information. A conservative approach of adopting, 25% for each quarter and 75% of the annual amounts was utilized for comparison purposes for the second, third and fourth quarters and the nine months ended December 31, 2003 respectively.

April 7 to December 31	Qtr. 2		Qtr. 3		Qtr. 4		Nine months	
	2004	2003	2004	2003	2004	2003	2004 <sup>(1)</sup>	2003 <sup>(2)</sup>
	\$	\$	\$	\$	\$	\$	\$	\$
Cash provided by								
operating activities .....	800		3,978		7,103		11,881	
Changes working capital ....	2,602		(414)		(4,257)		(2,069)	
Non-cash charges .....	132		425		605		1,162	
<b>EBITDA<sup>1</sup></b> .....	<b>3,534</b>		<b>3,989</b>		<b>3,451</b>		<b>10,974</b>	
Interest.....	(401)		(382)		(371)		(1,154)	
Cash income taxes.....	(32)		(210)		(169)		(411)	
Mtnce. capital exp. ....	(143)		(211)		(194)		(548)	
Loan payments .....	(7)		(14)		(25)		(46)	
<b>Distributable cash flow<sup>2</sup> ...</b>	<b>2,951</b>	<b>2,745</b>	<b>3,172</b>	<b>2,745</b>	<b>2,692</b>	<b>2,745</b>	<b>8,815</b>	<b>8,235</b>
<i>Basis &amp; diluted per unit...</i>	<i>\$0.276</i>	<i>\$0.256</i>	<i>\$0.296</i>	<i>\$0.256</i>	<i>\$0.250</i>	<i>\$0.256</i>	<i>\$0.822</i>	<i>\$0.745</i>
<b>Distributions and dividends</b>	<b>2,500</b>		<b>2,745</b>		<b>2,756</b>		<b>8,001</b>	
<i>Basic &amp; diluted per unit ..</i>	<i>\$0.233</i>		<i>\$0.256</i>		<i>\$0.246</i>		<i>\$0.735</i>	
Payout ratio <sup>3</sup> .....	85%	100%	87%	100%	102%	100%	91%	
<b>Units &amp; shares outstanding</b>								
<b>on a diluted basis .....</b>	<b>10,711</b>		<b>10,711</b>		<b>10,758</b>		<b>10,720</b>	

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The distributable cash flow<sup>2</sup> definition excludes changes in working capital as they are necessary to drive organic growth and are expected to be financed by a \$5.0 million revolving facility available to the Company. Likewise capital expenditures for expansion of the business are excluded as they are intended to generate future growth in distributable cash and are expected to be financed primarily by a US\$5.2 million term facility.

Distributable cash flow for the fourth quarter fell short of one quarter of the annual target outlined in the Prospectus by \$0.1 million, or by 2.4%. This decrease was primarily attributed to the reduction in EBITDA described earlier in this report. Maintenance capital expenditures were slightly above target, however management continues to believe that the annual target of \$0.75 million is appropriate<sup>5</sup>.

The distribution for April was prorated for a short month with full distributions beginning for the month of May at \$0.854 per unit, which represents an annual yield of 10.25% on a \$10 price per unit. We believe that a long-term payout ratio of 90% is appropriate and provides a reasonable cushion to enhance the stability and predictability of future distributions. Based upon the nine months ended December 31, 2004, 88.8% of the distributions will represent interest on the subordinated note held by the Fund and 11.2% will be treated as a return of capital to the unitholders.

### **Liquidity and Financing**

#### ***Initial public offering, use of proceeds***

The net proceeds of the initial public offering of the Fund were \$75.9 million, after deducting \$10.2 million in associated fees. These proceeds were mainly expended to acquire all the shares of the Company for \$68.8 million in cash, together with 1,686,414 in Units and 455,185 common shares of Holdings.

The surplus cash of \$6.7 million was deployed to discharge \$3.1 million of recorded liabilities, to pre-fund the discharge of \$2.4 million in pending commitments and to provide \$1.3 million in working capital for organic growth. Larger liabilities and commitments pre-funded included \$0.8 million to complete a new management information system ("MIS") for the Canadian operations, \$0.5 million to discharge amounts due to certain officers and \$1.0 million to cover the cheques outstanding on April 7, 2004. Of these pending payments, \$2.0 million was paid and the expenditure on MIS exceeded the budget by \$0.3 million as of December 31, 2004.

#### ***Cash flows from operating activities***

Cash flow from operating activities for the fourth quarter was \$7.1 million, and for the nine months ended December 31, 2004 was \$11.9 million, as the additional working capital of \$4.3 million in the fourth quarter is seasonal in nature and will reverse in January. Many of our customers use the month of December to shut down facilities for annual maintenance, so we follow their lead and lower both inventory and receivables during the holiday season. The

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financial structure of the Fund allows for maximum distributions of cash flow from operations to the unitholders and shareholders as outlined above in the distributable cash discussion. Actual distributions and dividends paid during the nine months ended December 31, 2004 were \$7.1 million with an additional \$0.9 million declared for December, which was paid on January 15.

#### ***Capital expenditures***

Capital expenditures for the nine months ended December 31, 2004 were \$1.6 million, \$0.6 million was for maintenance capital and \$1.0 million for the Canadian operations system implementation. Expenditures classified as maintenance capital are mainly comprised of new moulds or refurbishment of moulds for replacement packaging driven by customer marketing programs. No expansion capital was required for new machinery in the nine months ended December 31, 2004.

#### ***Financing activities and instruments***

The Company's credit facilities include a US\$18.2 million term loan with repayment at the end of 3 years, up to \$5.0 million in revolving debt to fund working capital expansion and up to US\$5.2 million for expansion capital and/or acquisition financing. During the nine months ended December 31, 2004 certain bank indebtedness was repaid and a partial repayment of the loans due to officers was made totaling \$0.9 million. During the first quarter \$3.2 million of the revolving credit facility was drawn to fund various contractual obligations outlined below.

The working capital and acquisition facilities are annual in nature and will be up for renewal on June 6, 2005. Management is confident that these facilities will be renewed with the current lending syndicate. The cash on hand of \$3.5 million at December 31<sup>st</sup> reflects a seasonal accumulation that fully reversed in January. Combined with the cash on hand, management believes that adequate financing will be available for the foreseeable future<sup>5</sup>.

Approximately 30% of distributable cash flow for the nine months ended December 31, 2004 was provided by the Company's US operations. In order to negate the inherent foreign currency exchange risk, management has put in place a US\$0.1 million monthly standard rate agreement through September 2005 fixed at US/Cdn\$0.73 to augment the impact of the interest on the US dollar debt described above. Combined, this position hedged substantially all of the distributable cash flow from the Company's US operations for the period April 7 to December 31, 2004.

The Fund is exposed to interest rate risk in the event of fluctuations in LIBOR and the bank's prime rate as the interest rates on the revolving credit facility and term loans are dependent on the bank's prime rate. The Fund has entered into interest rate swap contracts with approved creditworthy counterparties to manage current and anticipated exposure to interest rate risk through April 1, 2006 on a notional principal amount equal to the long-term loan. The fair value of the interest rate swap contract represents an unrealized gain of approximately \$237 as at December 31, 2004.

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#### *Contractual obligations*

	Total \$	< 1 year \$	1-3 years \$	4-5 years \$	Thereafter \$
Bank debt .....	25,673	3,653	22,020	—	—
Acquisition obligations .....	684	684	—	—	—
MIS payments .....	500	500	—	—	—
Annual bonus plans .....	604	604	—	—	—
Operating leases .....	11,159	2,532	4,141	3,342	1,144
	<b>38,620</b>	<b>7,973</b>	<b>26,161</b>	<b>3,342</b>	<b>1,144</b>

#### **Outlook<sup>5</sup>**

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

Now that the Company's profit improvement plan associated with the repositioning of sales focus on increasing strategic higher margin products is largely complete, future growth will result from organic growth and our acquisition strategy.

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

#### **Risks and Uncertainties**

##### *Business risks*

An investment in Units involves risks inherent in the ordinary course of business of the Company including: the sustainability of customer and supplier relationships, the financial stability of customers, competition from other distributors and manufacturers, resin price volatility and exchange rate and interest rate fluctuations. For a detailed description of these and other risks and uncertainties facing investors in the Fund please refer to the 2004 Annual Information Form dated March 28, 2005.

##### *Growth through acquisition*

Richard Packaging business strategy contemplates growth through strategic acquisitions similar in nature to those completed during the year. However, there can be no assurance that other attractive candidates will be found or that they would be integrated successfully. Furthermore the

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access to capital markets is critical to continuing this strategy and that depends heavily on prevailing sentiment in the financial markets.

#### ***Leverage and restrictive covenants***

Distributions to unitholders depend upon the Company's ability to pay interest obligations on the note indenture provided indirectly by the Fund and to pay dividends or return of capital. The ability to make these payments will depend upon the profitability of the Company, its cash flow and the compliance with restrictive covenants under the credit facilities.

#### **Transactions with Related Parties**

Richards Packaging leases four of its facilities from various former owners of the Company, or a recently acquired company, who are currently officers and unitholders. These same officers provided loans associated with the sales of their companies, which will be repaid shortly as outlined above. The Company utilizes all of the production capability of Vision Plastics Inc., which is half owned by the plant manager and half by the Company. All related party transactions are at rates that would be charged by arms length parties.

#### **Outstanding Share Data**

At March 28, 2004, the Fund had 10,256,327 Units outstanding and Richards Packaging Holdings Inc. had 524,685 exchangeable shares outstanding. See note 9 of the attached consolidated financial statements for further discussion on the terms of the Units and exchangeable shares.

#### **Critical Accounting Estimates**

The preparation of the consolidated financial statements in conformity with Canadian generally accepted accounting practices requires the Fund to make estimates and assumptions which affect the reported, and disclosure of contingent, amounts for assets and liabilities as at December 31, 2004 and revenue and expenses for the period then ended. Critical accounting estimates used in the preparation of the consolidated financial statements are outlined below.

#### ***Allowance for doubtful accounts***

The Fund maintains an allowance for doubtful accounts which is reviewed periodically on an account by account basis with a focus on the credit worthiness, aging and historical collection experience. Based on this review, the Fund believes the allowance as at December 31, 2004 is sufficient to cover the risks inherent in the outstanding receivables.

## **Richards Packaging Income Fund**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS**

[expressed in thousands, except where otherwise indicated  
and per unit amounts]

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#### ***Inventory obsolescence***

The Fund monitors the future demand for its inventory on a product by product basis, aging and the prevailing demand conditions in local markets to record an allowance for obsolescence. Based upon this review, the Fund believes the obsolescence provision is adequate to cover the risks inherent in the inventory on hand as at December 31, 2004.

#### ***Intangible assets***

The Fund has recognized an intangible asset of \$47.7 million as at April 7, 2004 and \$3.3 million as at November 30, 2004 pertaining to the future customer relationships that are not under long-term contract but their buying pattern in the past indicates a long-term relationship. The basis of valuation assumed that the margin percent would remain constant and the duration of these relationships would be impacted by a retention rate of 90% per year. This non-cash asset and the associated future income tax recovery at December 31, 2004 was \$17.4 million and will be amortized to income over 10 years. It should be noted that although these items affect the net income recorded by the Fund, they do not impact distributable cash flow available to unitholders.

#### **Future accounting changes**

In the coming year the Fund will adopt EIC151 – “Exchangeable Securities Issued by Subsidiaries of Income Trusts” and Accounting Guideline AcG-15 – “Consolidation of Variable Interest Entities”. Exchangeable shares representing approximately a 5% interest in the Fund are currently recognized in Unitholders’ equity and will be restated as minority interest in 2005. The impact of AcG-15 has not been determined at this time.

## Richards Packaging Income Fund

### MANAGEMENT'S DISCUSSION AND ANALYSIS

[expressed in thousands, except where otherwise indicated  
and per unit amounts]

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#### Additional Information

Additional information relating to the Fund, including the Prospectus, is available on SEDAR at [www.sedar.com](http://www.sedar.com) or on TSX at [www.tsx.com](http://www.tsx.com).

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*Outlined below are various measures that do not have a standard meanings prescribed by or recognized by GAAP. The Fund's method of calculating these measures may not be comparable to similar measures presented by other income trusts.*

- 1 Management defines EBITDA as earnings before amortization, interest, unrealized foreign exchange gains and income taxes. EBITDA is the same as income before under noted items and income taxes as outlined in the attached consolidated financial statements. Management believes that in addition to net income, EBITDA is a useful supplemental measure of earnings available for distribution prior to debt service, changes in working capital, capital expenditures and taxes. This earnings measure should not be construed as an alternative to net income or as an alternative to cash flow from operating, investing and financing activities as a measure of the Fund's liquidity and cash flows. The Fund's method of calculating EBITDA may not be comparable to similar measures presented by other companies or income trusts.*
- 2 Management defines distributable cash flow, in accordance with the Company's credit agreement, as EBITDA less interest, income taxes paid, maintenance capital expenditures and loan payments. Management believes that in addition to cash flow from operating, investing and financing activities, distributable cash flow is a useful measure of the cash available for distribution to unitholders and shareholders. Investors are cautioned that distributable cash flow should not be construed as an alternative to cash flow from operating, investing and financing activities as a measure of the Fund's liquidity and cash flows.*
- 3 Management defines payout ratio as distributions declared over maximum allowable distributions under the Funds' banking covenants.*
- 4 Management defines free cash flow as EBIDTA less capital expenditures, interest and dividends.*
- 5 The Report to Unitholders and this MD&A contain certain forward looking statements (the "Statements") regarding future growth potential, results of operations, performance and business prospects and opportunities of the Fund. These Statements reflect management's current beliefs and are based on information currently available to the management of the Fund. A number of factors could cause actual events or results to differ materially from those discussed in the forward-looking statements. Please refer to the Prospectus of the Fund for a full discussion of risks and uncertainties. Although the Statements contained in the report to the unitholders and the MD&A are based upon what management believes to be reasonable assumptions, there can be no assurance that actual results will be consistent with these Statements. These Statements are made as of the date of this report and the Fund assumes no obligation to update or revise them to reflect new events or circumstances.*

## **Richards Packaging Income Fund**

### **MANAGEMENT’S REPORT TO UNITHOLDERS**

The accompanying consolidated financial statements of Richards Packaging Income Fund (the Fund”) and Management’s Discussion and Analysis included in this Annual Report have been prepared by management and approved by the board of trustees of the Fund. The consolidated financial statements were prepared in accordance with accounting principles generally accepted in Canada and, where appropriate, reflect management’s best estimates and judgments. Management is responsible for the accuracy, integrity and objectivity of the consolidated financial statements within reasonable limits of materiality and for the consistency of financial data included in the text of the Annual Report with that contained in the Prospectus dated March 30, 2004.

To assist management in the discharge of these responsibilities, the Fund 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 with the external auditors to satisfy itself that management is properly discharging its financial reporting responsibilities and to review the consolidated financial statements and the Auditors’ Report. The external auditors have direct access to the Audit Committee of the board of trustees.

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

“Gerry Glynn”

Chief Executive Officer

“Rocco Liscio”

Chief Financial Officer