2012 Annual Report

Richards Packaging Income Fund

Securigo

DISPILL

Good Things Come in

Richards Packaging

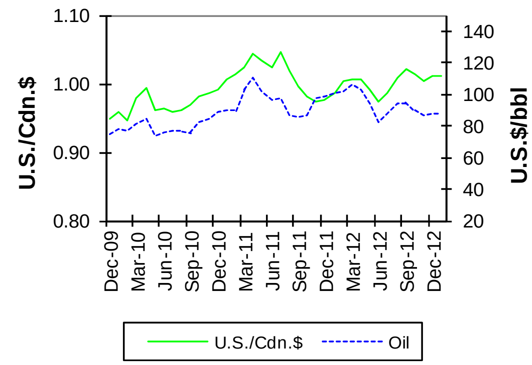
McKernan. PACKAGING CLEARING HOUSE

QUALITY DISCOUNT PACKAGING

INVESTMENT PROPOSITION

Financial Markets

- Global recession jobless recovery continued – packaging up 9% 2011 and 5% 2012
- Commodities stayed range-bound, most notably oil – FX and oil pricing gap reversed
- U.S./Cdn. exchange rate around parity; recently dropped to U.S./Cdn.$0.97 in line with oil
- 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



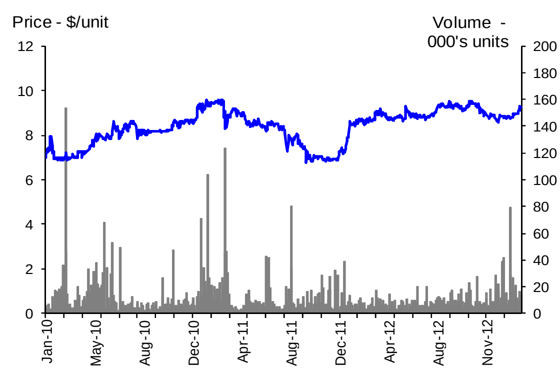
Distribution Policy

- Proforma reflects 2013 tax and 1.5% interest increase
- No trust conversion – cost/benefit not warranted
- Distributions for 2013 will be mainly return of capital reflecting cash flow from Richards US
- Monthly distributions of 6.55¢ per Unit
- Payout target of 76% reflects uncertain times

($ millions)	**2012**	**Adj's**	**Proforma**
EBITDA	21.0		21.0
Interest	(2.4)	(0.7)	(3.1)
Taxes	(2.7)	(2.1)	(4.8)
Maintenance capital	(1.0)		(1.0)
Future Distributable cash flow	14.9		12.1
Current distribution level	9.3		9.2
Payout Ratio	62%		76%

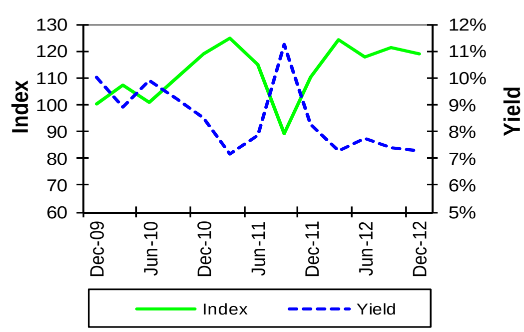
RPI.UN Trading Activity

- Price returned to highs of 2010
- Debt to EBITDA at 2.2 for 2010, 2.3 for 2011 and has broken below 2.0 in Q4 2012
- Price above $9 reflecting demand for high-yield securities and driving yield down to below 9%
- Dip in Q3 2011 consistent with high yield market trend



High Yield Diversified Market

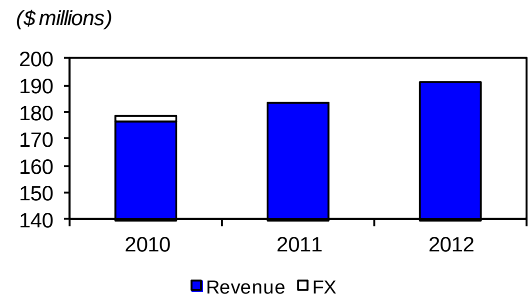
- December 2009 Price Index = 100
- Includes corporations and trusts not yet converting (IDS's, partnerships or have tax loss carry forwards)
- Yields widen to 16% during economic crisis – now below 8%
- Average price index recovered in 2012 reflecting investor demand for yield



PERFORMANCE SNAPSHOT

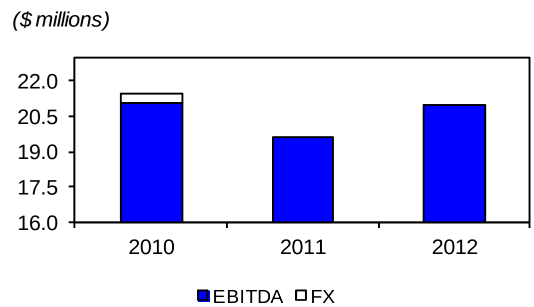
Revenue

- Organic growth $8.1 mil. both in Top 60 customers and small accounts (2011 – $6.8 mil.)
- Non-cash currency translation impact is nil (2011 – $1.0 mil. loss)
- 1% closures and 1% glass increases; 2% plastic decrease



EBITDA[1]

- EBITDA up $1.5 mil. at 11% of sales including $0.4 mil. disputed duties (2011 – down $1.9 mil.)
- Inventory $0.7 mil. write-down (2011 – $1.2 mil.)
- FX currency impact is nil (2011 – $0.1 mil.)
- Expansion capital impact flat at $0.1 mil.



Cash Management

- Free cash flow[2] reflects long term target cushion of 20% of distributable cash
  - ➢ Debt payments 2012
  - ➢ Debt payments 2011
  - ➢ Working capital 2010
- Debt payments $3.0 mil. (2011 – $3.5 mil.)
- NCIB initiated in 2012 and continues in 2013

($ millions)	**2010**	**2011**	**2012**
Free Cash Flow	6.3	5.8	**5.6**
Cash	1.0	3.9	**0.9**
Working Capital	37.6	39.7	**41.1**
Current ratio	*2.9*	*2.8*	***2.8***
Inventory turns	*4.4*	*4.3*	***4.2***
Expansion Capex	0.4	0.3	**0.3**
Debt	48.0	44.5	**41.5**
Debt/EBITDA	*2.2*	*2.2*	***1.9***
Units Purchased	0.5	—	**0.2**

Fourth Quarter Results

- Revenue growth 0.7% as the US economy slowdown that began in Q3 continues; FX currency impact $0.7 mil. (2011 – $0.3 mil. decrease)
- Disputed duties $0.4 mil. for product imported into Mexico
- EBITDA up to 10.4% excluding disputed duties; FX currency impact $0.2 mil. (2011 – nil)

($ millions)	**2010**	**2011**	**2012**
Revenue	41.9	44.9	**45.2**
EBITDA[1]	4.4	4.5	**4.3**
	10.6%	*10.0%*	***9.4%***
Payout Ratio[3]	*71%*	*64%*	***76%***
Debt Repayment	—	1.5	**1.5**
Share Buyback	—	—	**0.1**

CEO'S REPORT TO UNITHOLDERS

December 31, 2012

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 2012 results showed significant improvement in the first half with 7.1% organic growth, however growth slowed to 1.8% in the second half returning to 2008 pre-financial crisis levels. The foreign currency impact turned mildly positive with the translation of Richards Packaging US contributing an additional $1.0 million due to the U.S./Cdn. 1¢ weakening. We experienced an across the board revenue improvement of 3.1% for our top 60 customers and 6.3% growth in our small customers. EBITDA[1] was up by $1.5 million, or 7.4%, due to higher sales and a slight improvement in margins yielding an improvement of 0.3% as a percent of sales to 11.0%. Net income was $6.1 million, or $0.56 per Unit, down $2.0 million from the same period in 2011 which mainly reflects the mark-to-market loss on exchangeable shares.

Performance in the fourth quarter was flat with organic revenue growth of 2.2%, in line with growth levels for the packaging industry, being partially offset by the Canadian dollar strengthening by U.S./Cdn. 3¢. Gross profit and EBITDA[1] as a percent of sales were up 0.8% and 1.4%, at 15.3% and 10.4%, respectively, before the one-time $0.4 million charge for disputed Mexican duties.

The focus for 2013 will be to continue to grow revenue by 1% to 3% if the economic recovery takes hold. The impact of currency weakness should allow for the benefits of higher revenue translation to fall to the bottom line. At these slower revenue growth rates working capital investments will be minimal, which cash flow from operations should be adequate to fund. Acquisitions still remain part of our strategic direction although locating compelling targets has proved challenging[4].

Richards Packaging enters 2013 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 — March 7, 2013
Richards Packaging Inc.

INDEPENDENT TRUSTEES' REPORT

December 31, 2012

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 concluded, after consultation with its advisors, not to voluntarily convert to a common share entity by December 31, 2012 and therefore has foregone the eligibility for a tax-free rollover on conversion to common shares. Factors considered were current demand for units, access to capital markets as an Income Trust and costs to convert.

The Fund paid monthly distributions of 6.55¢ per Unit for the year, which represents an annualized yield of 9.2% on the December 31st closing price of $8.54 per Unit. The payout ratio[3] for the fourth quarter was 76% and 62% for the 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 2012 were all return of capital.

On March 13, 2013, the Fund will reinstate a normal course issuer bid to purchase up to 200,000 Units prior to March 12, 2014.

"Don Wright"	*"Wayne McLeod"*	*"Rami Younes"*	*"Derek Ridout"*
Chairman	Chair - audit committee	Trustee	Chair – compensation & Corporate governance committee

March 7, 2013

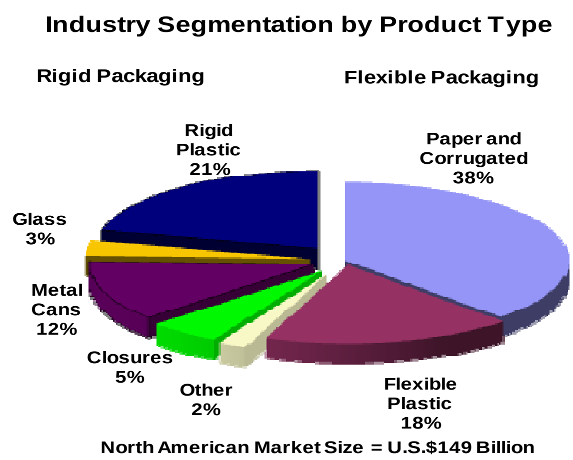
MANAGEMENT'S DISCUSSION AND ANALYSIS

March 7, 2013

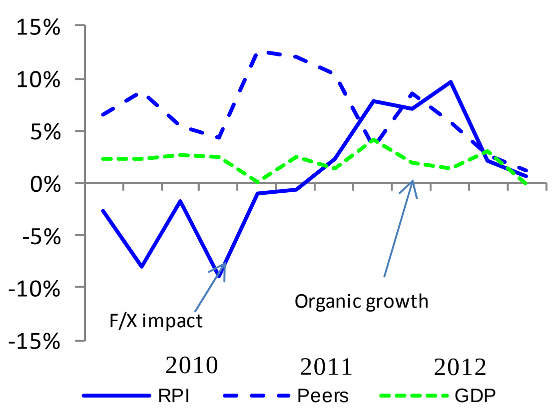
This management's discussion and analysis of Richards Packaging Income Fund ("MD&A") for the year should be read in conjunction with the attached audited financial statements for the year ended December 31, 2012, the quarterly reports for the periods ended March 31, June 30 and September 30, 2012 and the Annual Information Form dated March 7, 2013. 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 weakened in 2012 in line with GDP contraction.

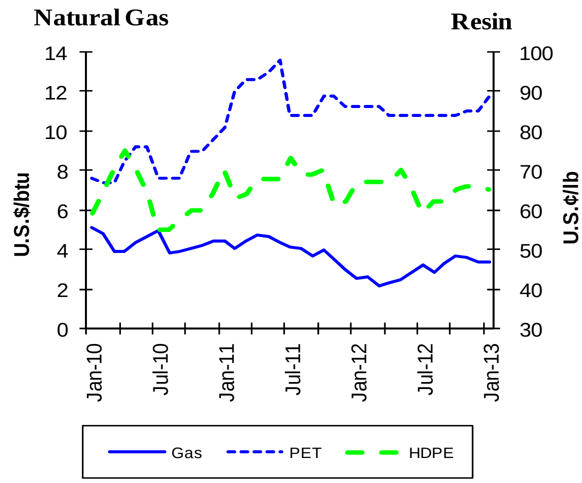


Revenue growth



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 2012 there were over 278 acquisitions in the global packaging industry, up 2% over 2011 but well below the 380 level of 2007, with an average value of U.S.$47 million (2011 – U.S.$28 million) at a median multiple of 6.8 times EBITDA[1] (2011 – 6.8). During 2012, the top 20 companies continued to spend on capital at the cautious rate of 4% of revenue. At the same time, excess capacity is continually being addressed with divestitures by conglomerates.

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 3% to 7% and free cash flow as defined within the industry at 3%, 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 2012.



PET – Polyethylene terephthalate; HDPE – High Density Polyethylene

Description of the Business and Fund Profile

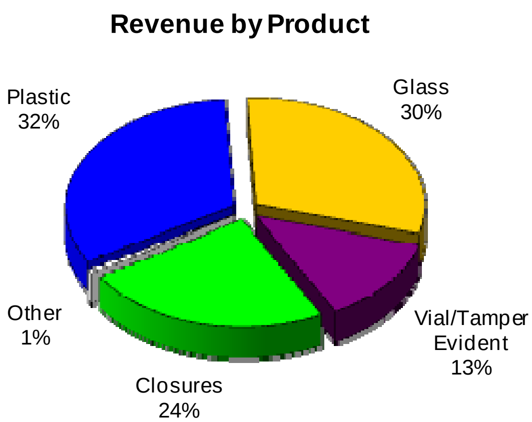
Within the North American Packaging Industry a $3 billion distributor-based market for rigid packaging exists to serve regional small- to medium-sized premium product marketers. Approximately 50 distributors provide marketing and package design expertise, source multiple packaging components from around 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 growing with the top five companies now controlling over 50% 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.

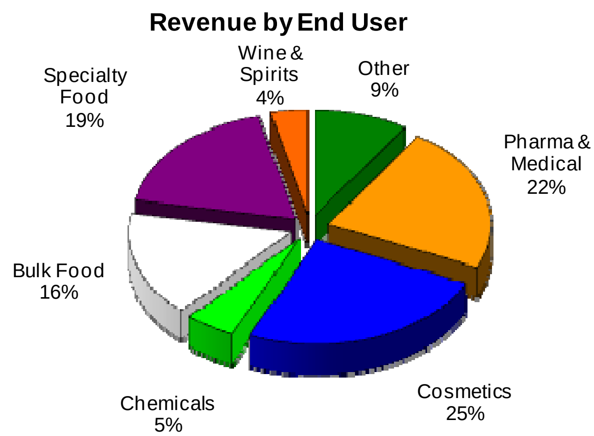
Richards Packaging Income Fund (the "Fund") is a limited purpose, open-ended trust created on February 26, 2004 to invest in packaging distribution businesses throughout North America. The Fund commenced operations on April 7, 2004 when the Fund completed an initial public offering of 8,569,913 trust 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 11,300 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.

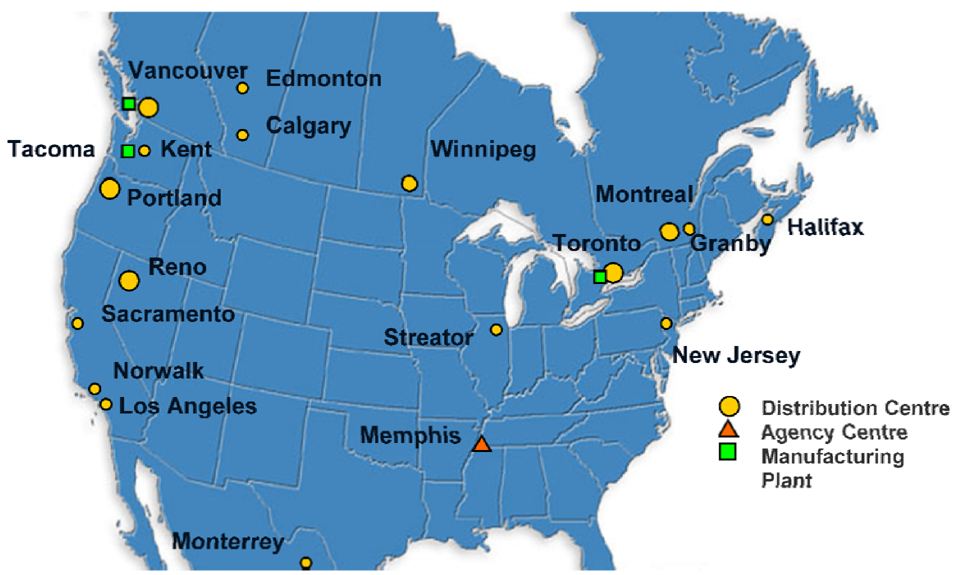
MANAGEMENT'S DISCUSSION AND ANALYSIS

March 7, 2013



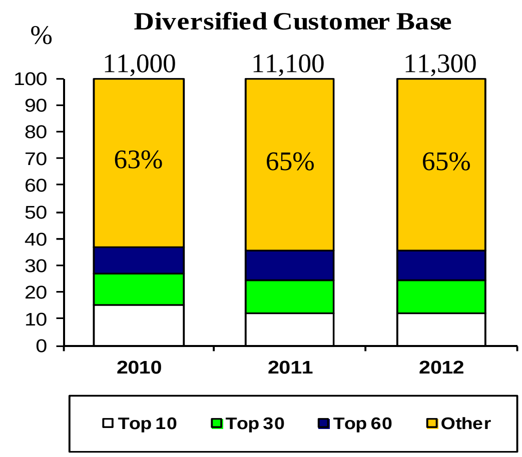


Richards Packaging Locations



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 2012, 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 increased in 2012 by $2 million (2011 – decreased $2 million) in addition to the $7 million growth in small customers (2011 – $5 million) as they experienced a growth rate of 6% per annum (2011 – 4%).

Impact of Changes in Financial Markets

The global economic downturn that began in late 2008 continued through to 2012 which impacted the foreign exchange and credit markets and the economic climate.

Foreign Exchange

Exchange rates have settled in close to par for the past two years leading to a muted impact on both revenue and EBITDA of $1.0 million and $0.1 million, respectively in the year. However, as of March 2013 volatility has returned with exchange rates returning to U.S./Cdn. $0.97 as we face the US sequester and European sovereign debt risks.

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 settling in at 1.2% in 2011 and remaining at that level in 2012.

($ millions)	**2010**	**2011**	**2012**
INTEREST RATES	*0.8%*	*1.2%*	*1.2%*
Impact on Interest	0.2	0.2	—
F/X - U.S./Cdn.$	*0.97*	*1.01*	***1.00***
Impact on:			
Revenue	(8.7)	(3.5)	**1.0**
EBITDA	(1.3)	(0.5)	**0.1**

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 through 2012. In Canada, the year saw growth rates at 0.4% in the first and second quarter finishing at 0.1% for the fourth quarter while the United States grew from 2.0% in the first quarter, up to 3.1% in the third quarter but down to -0.1% 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 year include:

- Revenue up 5.0%, mainly due to organic growth in Richards Packaging US,
- EBITDA[1], representing 11.0% of sales or a 16.4% return on net operating assets, up $1.5 mil.
- Inventory write-downs of $0.7 mil. (2011 – $1.2 mil.),
- Current income taxes up $1.6 mil. due to higher Richards Packaging US earnings,
- Net income down $2.0 mil. due primarily to the mark-to-market losses on exchangeable shares,
- Non-cash working capital increase of $5.9 mil. – $3.6 mil. increase in inventory before Chinese New Year
- Term debt repayments of $3.0 mil.,
- Paid monthly distributions of 6.55¢ per Unit to yield an 9.2% return (@$8.54/Unit – Dec 31st),
- Buy back of $0.2 mil. or 27,500 Units under the normal course issuer bid,
- Distributable cash flow[2] decreased by 2¢ to $1.26 per Unit yielding a payout ratio[3] of 62%.

The MD&A covers the three and 12 months ended December 31, 2012 and 2011 (generally referred to in this MD&A as the "fourth quarter" and the "year" respectively). The table on the following page sets out selected consolidated financial information:

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 Fund concluded, after consultation with its advisors, not to voluntarily convert to a common share entity by December 31, 2012 and therefore has foregone the eligibility for a tax-free rollover on conversion to common shares. Factors considered were current demand for units, access to capital markets as an Income Trust and costs to convert.

MANAGEMENT'S DISCUSSION AND ANALYSIS

March 7, 2013

($ thousands)	Qtr. 1		Qtr. 2		Qtr. 3		Qtr. 4		Calendar Year		
	2012	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**	**2010**
Income Statement Data:											
Revenue………………	**48,222**	44,739	**49,219**	44,913	**48,735**	47,755	**45,157**	44,856	**191,333**	182,263	179,010
EBITDA[1]………………	**5,645**	5,004	**5,665**	4,953	**5,387**	5,067	**4,263**	4,485	**20,960**	19,509	21,365
Diluted per Unit ……..	*47.8¢*	*42.4¢*	*48.0¢*	*42.0¢*	*45.7¢*	*42.9¢*	*36.2¢*	*38.0¢*	*$1.78*	*$1.65*	*$1.81*
Net income……………	**(735)**	1,336	**3,695**	2,108	**1,338**	3,316	**1,763**	1,338	**6,061**	8,098	6,462
Diluted per Unit [c)] …..	*-6.8¢*	*13.3¢*	*19.8¢*	*14.0¢*	*12.5¢*	*16.6¢*	*10.9¢*	*13.3¢*	*$0.56*	*$0.64*	*$0.64*
Balance Sheet Data:											
Net operating assets….	**131,966**	136,332	**132,636**	134,710	**129,558**	137,132	**127,587**	133,348	**127,587**	133,348	137,277
EBITDA/Assets ….									*16.4%*	*14.6%*	*15.6%*
Bank debt………………	**44,000**	47,500	**43,500**	47,000	**43,000**	46,000	**41,500**	44,500	**41,500**	44,500	48,000
Debt/EBITDA ……….	*2.1*	*2.2*	*2.1*	*2.3*	*2.0*	*2.3*	*1.9*	*2.2*	*1.9*	*2.2*	*2.2*
Gearing ratio [b)] ……….									*48.2%*	*50.1%*	*53.8%*
Cash Flow Statement Data:											
Distributions [a)]……….	**2,319**	2,318	**2,320**	2,316	**2,316**	2,319	**2,316**	2,322	**9,271**	9,275	9,310
Diluted per Unit ……..	*19.6¢*	*19.6¢*	*19.7¢*	*19.6¢*	*19.6¢*	*19.6¢*	*19.7¢*	*19.7¢*	*$0.79*	*$0.79*	*$0.79*
Payout ratio [3] ……….	*57%*	*62%*	*58%*	*61%*	*62%*	*59%*	*76%*	*64%*	*62%*	*61%*	*60%*
Unit purchases……….	**—**	—	**49**	—	**49**	—	**146**	—	**244**	—	455

a) presented on a declared basis;

b) calculated as the percentage of bank debt to net operating assets less bank debt

c) anti-dilutive result reverts back to basic income per Unit

Review of Operations

Operations were approximately one-half (2011 – one-half) in Canada and one-half (2011 – 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 $0.3 million, or 0.7%, for the fourth quarter (2011 – $3.0 million, or 7.1%), and by $9.1 million, or 5.0%, for the year (2011 – $3.3 million, or 1.8%), from the same periods in 2011, respectively. During the fourth quarter, revenue increased on organic growth of $1.0 million, or 2.2%, (2011 – $2.7 million, or 6.5%) offset by the translation impact of Richards Packaging US with the Canadian dollar strengthening 3¢ to U.S./Cdn. $1.01 of $0.7 million (2011 – increased $0.3 million). For the year, the revenue increase was due to organic growth of $8.1 million, or 4.4%, (2011 – $5.4 million, or 3.0%) and the translation impact of Richards Packaging US of $1.0 million due to a U.S./Cdn. 1¢ weakening (2011 – decreased $3.5 million) to U.S./Cdn. $1.00.

($ thousands)	**Qtr. 1**		**Qtr. 2**		**Qtr. 3**		**Qtr. 4**		**Calendar Year**		
	2012	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**	**2010**
Revenue……………………	**48,222**	44,739	**49,219**	44,913	**48,735**	47,755	**45,157**	44,856	**191,333**	182,263	179,010
Cost…………………….	**40,278**	37,419	**41,240**	37,677	**41,141**	40,431	**38,266**	38,342	**160,925**	153,869	147,762
Gross profit………….	**7,944**	7,320	**7,979**	7,236	**7,594**	7,324	**6,891**	6,514	**30,408**	28,394	31,248
	16.5%	*16.4%*	*16.2%*	*16.1%*	*15.6%*	*15.3%*	*15.3%*	*14.5%*	*15.9%*	*15.6%*	*17.5%*
Expenses………………	**2,305**	2,312	**2,274**	2,277	**2,333**	2,213	**2,162**	2,103	**9,074**	8,905	9,867
FX [a)]……………………	**(6)**	4	**40**	6	**(126)**	44	**30**	(74)	**(62)**	(20)	16
Disputed duties……….	—	—	—	—	—	—	**436**	—	**436**	—	—
EBITDA[1]………………….	**5,645**	5,004	**5,665**	4,953	**5,387**	5,067	**4,263**	4,485	**20,960**	19,509	21,365
	11.7%	*11.2%*	11.5%	*11.0%*	11.1%	*10.6%*	9.4%	*10.0%*	*11.0%*	*10.7%*	*11.9%*
Amortization………….	**1,895**	1,900	**1,921**	1,939	**1,938**	1,941	**2,003**	1,845	**7,757**	7,625	7,810
Patent defense costs…	**17**	60	**6**	156	**97**	73	**57**	22	**177**	311	383
Financial expenses……	**649**	627	**726**	677	**639**	678	**533**	669	**2,547**	2,651	3,442
Exchangeable shares…	**3,195**	684	**(1,358)**	(452)	**631**	(1,359)	**(482)**	547	**1,986**	(580)	3,787
Vision…………………..	**3**	61	**6**	(8)	**38**	22	**(143)**	(9)	**(96)**	66	84
Income tax…………….	**621**	336	**669**	533	**706**	396	**532**	73	**2,528**	1,338	(603)
Net Income (loss)………..	**(735)**	1,336	**3,695**	2,108	**1,338**	3,316	**1,763**	1,338	**6,061**	8,098	6,462

a) FX=*foreign currency losses (gains)*

Cost of products sold (before amortization) decreased $0.1 million for the fourth quarter (2011 – increased $3.2 million, or 9.2%) and increased by $7.1 million for the year, or 4.6%, (2011 – $6.1 million decrease, or 4.1%) from the same periods in 2011, respectively. During the fourth quarter gross profit margins were up 0.8% (2011 – down 1.6%) from the same period in 2011, primarily due to the impact of no inventory write-downs (2011 – $1.0 million) offset by the impact of foreign exchange, ocean freight and price degradation in select large accounts. For the year gross profit margins were up 0.3% (2011 – down 1.9%) due to the impact of $0.5 million of lower inventory write-downs. 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) increased $0.1 million, or 0.1% of sales, for the fourth quarter (2011 – decreased $0.3 million) and increased $0.2 million for the year (2011 – decreased $1.0 million), over the same periods in 2011, respectively mainly due to the translation impact of U.S. dollar denominated expenses of Richards Packaging US.

Disputed duties resulted from additional duties of $0.1 million and penalties and interest of $0.3 million for product imported into Mexico. Management is challenging the assessment and has retained counsel to have the duties, penalties and interest overturned. If successful, costs would be recovered net of legal costs of $0.1 million.[4]

The foreign exchange losses (gains) resulted from exchange rate changes applied to our U.S. denominated working capital position within our Canadian operations. The net liability position, which grew in the third quarter lead to a gain with the strengthening of the Canadian dollar, decreased in the fourth quarter.

EBITDA[1] decreased $0.2 million for the fourth quarter (2011 – increased $0.2 million) and increased $1.5 million for the year (2011 – decreased $1.9 million), over the same periods in 2011, respectively. For the year the impact of the U.S./Cdn. 1.0¢ weakening resulted in an increase to EBITDA of $0.1 million (2011 – decrease $0.4 million). As a percent of sales, EBITDA was at 9.4% for the fourth quarter and 11.0% for the year (2011 – 10.7%). Changes were due to the factors outlined above.

Amortization of $2.0 million for the fourth quarter and $7.8 million for the year was mainly comprised of $1.6 million for the quarter and $6.4 million for the year for intangible assets, which represents a charge for customer relationships and patents. The remaining amortization amounts consisted of plant and equipment depreciation of $0.4 million for the fourth quarter and $1.3 million for the year, which approximates the annual maintenance capital expenditure spending requirement.

Financial expenses decreased by $0.1 million for the fourth quarter from the same periods in 2011, due to lower interest rates as the leverage ratio fell below 2.0 times leading to a 0.25% reduction in bank margining along with less term debt. For the year, financial expenses decreased $0.1 million due to lower interest rates as effective May 18, 2012, bank margining costs were reduced by 0.95% and the term and revolving credit maturities were extended to May 31, 2015 offset by bank refinancing fees of $0.1 mil.

Exchangeable shares include the mark-to-market loss (gain) and the dividends paid on the exchangeable shares. The mark-to-market loss for the year reflects a unit price increase during the year of $1.04 to $8.54 per Unit ($1.2 million) offset by the 6.55¢ per month dividend rate on the exchangeable shares ($0.8 million).

For the year taxes increased $1.2 million as current taxes increased $1.7 million, representing tax leakage predominately for the Richards Packaging US offset by deferred tax decreasing $0.5 million reflecting a lower utilization of the loss carry forwards. Net deferred tax liabilities are $0.3 million, which include $0.8 million of plant and equipment and computer system software, offset by a loss carry forward of $0.2 million and $0.3 million of working capital.

Net income for the fourth quarter was $1.8 million, and for the year was $6.1 million, which represented 11.0¢ and $0.56 per Unit on a diluted basis, respectively. A time-weighted average total of 10,735,721 Units and 1,059,043 exchangeable shares, exchangeable into Units on a one-for-one basis, were outstanding in 2012.

Distributable Cash Flow

($ thousands)	Qtr. 1		Qtr. 2		Qtr. 3		Qtr. 4		Calendar Year		
	2012	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**	**2010**
Cash provided by											
operating activities……..	**1,316**	2,906	**2,652**	3,813	**3,948**	4,444	**5,326**	8,245	**13,242**	19,408	13,094
Working capital changes..	**4,283**	2,019	**2,163**	967	**621**	495	**(2,009)**	(4,325)	**5,058**	(844)	5,674
Income taxes payments…..	**29**	19	**844**	17	**721**	53	**889**	545	**2,483**	634	2,214
Patent costs………………	**17**	60	**6**	156	**97**	73	**57**	22	**177**	311	383
EBITDA[1]	**5,645**	5,004	**5,665**	4,953	**5,387**	5,065	**4,263**	4,487	**20,960**	19,509	21,365
Interest [a)]……………………	**649**	627	**626**	677	**639**	678	**533**	669	**2,447**	2,651	2,607
Current income tax………..	**658**	302	**742**	347	**813**	396	**488**	8	**2,701**	1,053	1,523
Maintenance capital……..	**246**	333	**314**	106	**206**	91	**188**	165	**954**	695	1,647
Distributable cash flow[2] ..	**4,092**	3,742	**3,983**	3,823	**3,729**	3,900	**3,054**	3,645	**14,858**	15,110	15,588
Diluted per Unit ……….	*34.7¢*	*31.7¢*	*33.8¢*	*32.4¢*	*31.6¢*	*33.0¢*	*25.9¢*	*30.9¢*	*$1.26*	*$1.28*	*$1.32*
Distributions…………….	**2,319**	2,318	**2,320**	2,316	**2,316**	2,319	**2,316**	2,322	**9,271**	9,275	9,310
Diluted per Unit ……..	*19.6¢*	*19.6¢*	*19.7¢*	*19.6¢*	*19.6¢*	*19.6¢*	*19.7¢*	*19.7¢*	*$0.79*	*$0.79*	*$0.79*
Payout ratio [3] ……….	*57%*	*62%*	*58%*	*61%*	*62%*	*59%*	*76%*	*64%*	*62%*	*61%*	*60%*
Free cash flow[2] ………….	**1,773**	1,424	**1,663**	1,507	**1,413**	1,581	**738**	1,323	**5,587**	5,835	6,278
Units outstanding											
Diluted basis 000's …….	**11,803**	11,803	**11,801**	11,803	**11,791**	11,803	**11,785**	11,803	**11,795**	11,803	11,808

a) financial expenses less bank refinancing fees

The distributable cash flow[2] 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 currently undrawn (2011 – nil drawn).

Distributable cash flow[2] for the fourth quarter at $3.1 million decreased $0.6 million in comparison to the same period in 2011 as lower EBITDA[1] and lower interest were offset with higher maintenance capital and income taxes due to the increase in earnings in Richards Packaging US. Distributable cash flow sensitivity to foreign currency fluctuations is $0.1 million for every U.S./Cdn. 1¢ movement.

The monthly distribution of 6.55¢ per Unit represents an annual yield of 9.2% on an $8.54 price per Unit at December 31, 2012 and a payout ratio[3] of 62% (2011 – 61%). Based upon the 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 decreased $2.9 million for the fourth quarter and $6.2 million for the year, over the same periods in 2011. The decreases were due primarily to higher cash outflows in income taxes and working capital over the same periods in 2011 driven by higher inventory spending, increases in prepaid expenses and accounts receivable and a decrease in accounts payable at year end.

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 year were $9.3 million with an additional $0.8 million declared for December, which was paid January 14th.

Free Cash Flow Deployment

($ millions)	**2010**	**2011**	**2012**
Free Cash Flow	6.3	5.8	5.6
Patents	0.4	0.3	0.2
Working Capital	5.2	—	1.9
Expansion Capex	0.4	0.3	0.3
Unit Buyback	0.5	—	0.2
Debt Repayment	(0.2)	3.5	3.0

Normal Course Issuer Bid

On March 13, 2012, the Fund initiated a normal course issuer bid to purchase up to 200,000 Units prior to March 12, 2013. During the year 27,500 units were purchased at an average price of $8.85 per Unit, with 16,300 units purchased in the fourth quarter for at an average price of $8.95. Since these purchases were made towards the end of the quarter, the effect will be a reduction in monthly distributions beginning January, 2013. On March 13, 2013, the Fund will reinstate a normal course issuer bid to purchase up to 200,000 Units prior to March 12, 2014.

Current income taxes

The current income tax expense for the year was $2.7 million (2011 – $1.1 million), made up of current income tax for the Richards Packaging US. The loss carry forwards in Richards Canada are expected to be fully utilized in 2013[4].

Capital expenditures

Capital expenditures for the year were $1.3 million (2011 – $1.0 million), of which $0.3 million (2011 – $0.3 million) was on account of expansion capital and $1.0 million on account of maintenance capital (2011 – $0.7 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

Current low interest rates and the absence of Canadian taxes represented one-half of the free cash flow for the year which was deployed to pay down debt. The lower leverage resulted in a reduction of 0.25% in bank margining or $0.1 million per year. Future debt reductions will provide financing flexibility for our ongoing acquisition program. The remaining free cash flow is more permanent in nature due to our distribution policy and is used to fund working capital for organic growth.

Credit facilities include a $41.5 million term loan (2011 – $44.5 million) with maturity on May 31, 2015 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 1.55% to 1.80% (2011 – 2.5% to 3.25%) or at the prime rate plus a premium of 0.55% to 0.80% (2011 – 1.5% to 2.25%). During the year, $3.0 million of term debt was repaid (2011 - $3.5 million).

On May 18, 2012, Richards Packaging extended the term and revolving credit facilities to May 31, 2015 with the interest premium over BA's, or prime rate, lowered by 0.95% and expensed $0.1 million of associated fees. 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 EBITDA[1]. As at December 31, 2012, our pro forma leverage ratio was 1.91 (2011 – 2.20). Combined with cash flow from operations, management believes that adequate financing will be available for the foreseeable future[4].

Commitments and contractual obligations

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.

($ millions)	**Total**	**< 1 yr.**	**< 3 yrs**	**< 5 yrs**	**Beyond**
Bank debt	41.5		41.5		
Previous shareholder	0.8	0.8			
Patents and trademarks	0.5	0.5			
Annual bonus plans	0.7	0.7			
Operating leases	16.5	4.0	5.6	3.4	3.5
	60.0	6.0	47.1	3.4	3.5

Outlook[4]

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 2013.

Management expects revenue growth to return to the industry growth average of 1-3%. The impact of exchange translation for 2013 is expected to be over $2.0 million based on current exchange rates at U.S./Cdn.$0.97.

EBITDA[1] for the fourth quarter was $4.3 million and $21.0 million for the year, and is expected to be maintained at levels of 11% of revenue. For the 2013 year, translation is expected to impact EBITDA by $0.3 million at current exchange rates.

Interest rates are expected to remain at historically low levels for 2013.

The current income tax expense is expected to increase by $2.1 million in 2013 due to taxes in Richards Canada net of the remaining $0.2 million of loss carry forwards, along with additional tax leakage in Richards Packaging US. Distributable cash flow[3] from Richards Packaging US and Richards Canada's current tax profile are expected to allow for a full return of capital to unitholders.

Maintenance capital will continue to be funded by cash flow from operations and is expected to be $1.0 million in 2013. 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 $0.9 million at year end will be deployed to fund the working capital requirements for revenue growth. For 2013, surplus distributable cash is expected to be deployed to pay down debt, purchase units opportunistically under the normal course issuer bid and/or fund acquisitions.

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 2012 Annual Information Form dated March 7, 2013.

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 Richard 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 2012 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, 2013, the Fund had 10,687,670 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, 2012 and revenue and expenses for the year then ended. Critical accounting estimates used in preparation of the consolidated financial statements are outlined below.

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, 2012 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 $0.7 million recognition of expense through inventory write down for the year (2011 – $1.2 million). Based upon this review, management believes the obsolescence provision is adequate to cover risks inherent in inventory on hand as at December 31, 2012.

Intangible assets

Intangible assets have been recognized in connection with various acquisitions valued at $6.7 million as of December 31, 2012 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 $2.4 million future income tax liability as at December 31, 2012 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 flow[2].

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 $8.54 as at December 31, 2012 (2011 – $7.50), 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% per annum respectively. Overall the carrying value of goodwill continues to be supported by the fair value of the Fund.

Change in Accounting Policy

The Fund has changed the presentation of the statements of cash flows to start with *Profit from operations* rather than *Net income* and moved from Operating activities *Distributions paid to exchangeable shareholders* and *Financial expenses* to Financing activities. Movement of *Distributions paid to exchangeable shareholders* and *Financial expenses* to Financing activities better aligns these cash flows with the classification of the associated capital in the statements of financial position and separately disclosed in the statements of net income and comprehensive income after *Profit from operations.*

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, 2012 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, 2012 and there have been no changes in the internal controls over financial reporting during the year ended December 31, 2012 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.tmx.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, share of (income) loss - Vision 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 flow[2]. The objective of presenting this measure is to calculate the percentage of actual distributions in comparison to the amount available for distribution. Payout ratio does not have a standardized meaning prescribed by IFRS. The method of calculating the payout ratio may not be comparable to similar measures presented by other companies.*

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 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.*

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, 2013.

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 Canadian generally accepted auditing 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, 2013

March 7, 2013

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 and its subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2012 and December 31, 2011 and the consolidated statements of net income and comprehensive income, changes in equity and cash flows for the years ended December 31, 2012 and December 31, 2011, 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 and its subsidiaries as at December 31, 2012 and December 31, 2011 and its financial performance and its cash flows for the years ended December 31, 2012 and December 31, 2011 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]*

Cdn$ thousands	Notes	2012	2011
Revenue	*4*	**191,333**	182,263
Cost of products sold	*5*	**168,596**	161,388
Administrative expenses	*5*	**9,160**	9,011
Foreign currency gain	*18*	**(62)**	(20)
Patent defense legal costs	*19*	**177**	311
Disputed duties	*19*	**436**	—
Profit from operations		**13,026**	11,573
Financial expenses	*14, 18*	**2,547**	2,651
Exchangeable shares			
Mark-to-market loss (gain)	*15, 18*	**1,154**	(1,409)
Distributions	*15*	**832**	829
Share of (income) loss - Vision	*17*	**(96)**	66
Income before income taxes		**8,589**	9,436
Income tax expense (income)			
Current taxes	*6*	**2,701**	1,053
Deferred taxes	*6*	**(173)**	285
		2,528	1,338
Net income for the year		**6,061**	8,098
Basic income per Unit	*15*	***$0.56***	*$0.75*
Diluted income per Unit	*15*	***$0.56***	*$0.64*
Other comprehensive income			
Richards Packaging US			
Currency translation adjustment		**(1,293)**	1,326
Comprehensive income for the year		**4,768**	9,424

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

"Wayne McLeod"	*"Gerry Glynn"*	*"Enzio Di Gennaro"*
Chair - Audit Committee	*CEO - Richards Packaging Inc.*	*CFO - Richards Packaging Inc.*

STATEMENTS OF FINANCIAL POSITION

As at December 31 *[Consolidated]*

Cdn$ thousands	Notes	2012	2011
Current Assets			
Cash and cash equivalents	*7*	**893**	3,874
Accounts receivable	*8*	**19,718**	19,081
Inventory	*9, 18*	**40,379**	37,209
Prepaid expenses and deposits	*10*	**2,316**	2,138
Income taxes recoverable	*6*	**65**	283
		63,371	62,585
Current Liabilities *(excluding debt)*			
Accounts payable and accruals	*11*	**(20,764)**	(21,303)
Distributions payable	*15*	**(771)**	(773)
Due to previous shareholder	*11*	**(784)**	(802)
		(22,319)	(22,878)
WORKING CAPITAL	*2*	**41,052**	39,707
Long-term Assets			
Plant and equipment	*4, 12*	**3,564**	3,606
Investment - Vision	*4, 17*	**672**	576
Intangible assets	*4, 13*	**18,285**	24,990
Goodwill	*4, 13*	**70,367**	71,088
		92,888	100,260
Long-term Liabilities *(excluding debt)*			
Deferred income taxes	*6*	**(6,353)**	(6,619)
NET OPERATING ASSETS	*2*	**127,587**	133,348
Debt			
Term debt	*14*	**41,500**	44,500
Exchangeable shares - current	*15, 18*	**8,943**	7,789
		50,443	52,289
Equity			
Unitholders' capital	*15*	**72,617**	81,300
Retained earnings		**11,486**	5,425
Accumulated other comprehensive loss		**(6,959)**	(5,666)
		77,144	81,059
CAPITAL	*16, 18*	**127,587**	133,348
Commitments and contingencies	*19*		

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

STATEMENTS OF CHANGES IN EQUITY

For the years ended December 31 *[Consolidated]*

Cdn$ thousands	**Notes**	**Unitholders' capital**	**Retained earnings (deficit)**	**AOCL[a)]**	
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)
Purchased for cancellation, net	*15*	—			—
December 31, 2011		81,300	5,425	(5,666)	81,059
Share of comprehensive income			**6,061**	**(1,293)**	**4,768**
Distributions	*15*	**(8,439)**			**(8,439)**
Purchased for cancellation, net	*15*	**(244)**			**(244)**
December 31, 2012		**72,617**	**11,486**	**(6,959)**	**77,144**

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]*
[2011 Restated – note 3]

Cdn$ thousands	**Notes**	**2012**	**2011**
OPERATING ACTIVITIES			
Profit from operations		**13,026**	11,573
Add items not involving cash			
Plant and equipment depreciation	*12*	**1,310**	1,187
Intangible assets amortization	*13*	**6,447**	6,440
Income taxes payments	*6*	**(2,483)**	(636)
		18,300	18,564
Changes in non-cash working capital	*20*	**(5,058)**	844
Cash provided by operating activities		**13,242**	19,408
INVESTING ACTIVITIES			
Additions to plant and equipment	*12*	**(1,291)**	(944)
Additions to intangible assets	*13*	**—**	(90)
Cash used in investing activities		**(1,291)**	(1,034)
FINANCING ACTIVITIES			
Repayment of term debt	*14*	**(3,000)**	(3,500)
Financial expenses paid	*14*	**(2,497)**	(2,644)
Purchase of Fund units for cancellation	*15*	**(244)**	—
Distributions paid to exchangeable shareholders	*15*	**(832)**	(829)
Distributions paid to unitholders	*15*	**(8,439)**	(8,445)
Cash used in financing activities		**(15,012)**	(15,418)
Increase (decrease) in cash and cash equivalents		**(3,061)**	2,956
Cash and cash equivalents, beginning of year	*7*	**3,874**	979
Foreign exchange effect on cash and cash equivalents		**80**	(61)
Cash and cash equivalents, end of year	*7*	**893**	3,874

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

NOTES TO FINANCIAL STATEMENTS

1. FORMATION OF THE FUND AND AQUISITION

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"]. 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 long-term assets less long-term liabilities (excluding debt). Accounting policies utilized under IFRS are consistent with those previously applied except as disclosed in note 3. 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., The E.J. McKernan Company and McKernan Packaging - Richards de Mexico, S.A. de c.v. [collectively "Richards Packaging US"]. Vision Plastics Inc. ["Vision"], which is jointly controlled and accounted for under the equity method, 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 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 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 the recognition of 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 probable 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

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 long-term 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 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. CHANGE IN ACCOUNTING POLICY AND NEW ACCOUNTING PRONOUNCEMENTS

The Fund has changed the presentation of the statements of cash flows to start with *Profit from operations* rather than *Net income* and moved from Operating activities *Distributions paid to exchangeable shareholders* and *Financial expenses paid* to Financing activities. Application of this change provides a more consistent classification with that of the statements of net income and comprehensive income and statements of financial position.

There are no new IFRS that became effective after January 1, 2012 that would be expected to have a material impact on these financial statements.

December 31, 2012 and 2011 [$ thousands]

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	
	2012	**2011**	**2012**	**2011**
Revenue	**94,896**	93,378	**96,437**	88,885
Non-current assets	**42,630**	48,681	**50,258**	51,579

5. EXPENSES BY NATURE

	2012	**2011**
Salaries and wages	**17,643**	17,509
Benefits	**2,954**	3,045
Bonuses	**841**	630
Long-term incentive plan awards	**100**	100
Employee compensation	**21,538**	21,284
Inventory sold	**127,917**	119,925
Inventory provisions	**697**	1,526
Selling, distribution and other costs	**16,141**	16,347
Depreciation and amortization	**7,757**	7,625
Lease expenses	**3,706**	3,692
Cost of products sold and administrative expenses	**177,756**	170,399

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 $1,460 [2011 – $1,291].

December 31, 2012 and 2011 [$ thousands]

6. INCOME TAXES

Significant components of deferred income taxes are as follows:

	2012	expense/ (income)	f/x[b]	2011	expense/ (income)	f/x[b]	2010
Deferred tax liabilities							
Plant and equipment	**569**	**9**	**(6)**	566	206	4	356
Customer relationships[a)]	**5,594**	**(1,753)**	**(84)**	7,431	(1,865)	93	9,203
Computer system software	**177**	**(50)**	**(5)**	232	(12)	5	239
Patents[a)]	**430**	**(75)**	—	505	(94)	—	599
Other	**112**	**77**	**(6)**	41	126	2	(87)
Deferred tax assets							
Loss carryforward for tax	**(185)**	**1,587**	—	(1,772)	1,894	—	(3,666)
Working capital	**(344)**	**32**	**8**	(384)	30	(9)	(405)
	6,353	**(173)**	**(93)**	6,619	285	95	6,239

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:

	2012	2011
Income subject to income taxes	**8,589**	9,436
Statutory tax rate	*26.3%*	*27.9%*
Income tax expense at statutory tax rate	**2,259**	2,628
Deferred income taxes	**173**	(285)
Current period adjustments		
Foreign tax differential	**(974)**	(1,239)
Foreign rate differential	**677**	120
Disputed duties	**74**	—
Exchangeable shares		
Distributions and mark-to-market loss (gain)	**522**	(162)
Other items	**(30)**	(9)
Current income taxes	**2,701**	1,053

December 31, 2012 and 2011 [$ thousands]

7. CASH AND CASH EQUIVALENTS

	2012	**2011**
Cash at bank	**1,741**	2,435
Demand deposits	—	2,500
Issued and outstanding cheques	**(848)**	(1,061)
	893	3,874

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

8. ACCOUNTS RECEIVABLE

	2012	**2011**
Current	**12,559**	12,123
Up to 60 days past due	**6,502**	6,120
61 – 90 days past due	**376**	547
Over 90 days past due	**468**	526
Trade receivables	**19,905**	19,316
Allowance for doubtful accounts[a)]	**(382)**	(318)
Supplier rebates	**195**	83
	19,718	19,081

a) Management recorded new provisions of $157 [2011 – $62] and wrote off $99 [2011 – $251]. The remaining non-cash change in the accounts reflects foreign exchange differences.

9. INVENTORY

	2012	**2011**
Goods purchased for resale	**35,573**	33,304
Goods in transit	**4,072**	3,094
Manufacturing raw materials	**577**	605
Manufactured finished goods	**2,378**	2,417
Reserve for slow moving inventory[a)]	**(2,221)**	(2,211)
	40,379	37,209

a) Management recorded a provision of $697 [2011 – $1,526] and recognized write-offs of $687 [2011 – $1,162].

December 31, 2012 and 2011 [$ thousands]

10. PREPAID EXPENSES AND DEPOSITS

	2012	2011
Deposits for commitment to purchase goods	**458**	443
Rent and deposits	**786**	797
Insurance	**30**	28
Bank interest	**112**	144
Property taxes	**437**	266
Other deposits	**493**	460
	2,316	2,138

11. ACCOUNTS PAYABLE AND ACCRUALS

	2012	2011
Trade payables	**15,949**	17,122
Rebates	**406**	368
Staffing expenses[a)]	**1,316**	1,573
Professional fees	**232**	317
Leases	**396**	414
Disputed duties *[note 19]*	**436**	—
Sales tax	**788**	379
Other payables	**1,241**	1,130
	20,764	21,303

a) Management bonuses included in staffing at December 31, 2012 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.

December 31, 2012 and 2011 [$ thousands]

12. PLANT AND EQUIPMENT

	Manufacturing Equipment	Moulds	Warehouse & office	Computer equipment	Leaseholds	Totals
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
Additions	**239**	**899**	**49**	**48**	**56**	**1,291**
Depreciation	**(299)**	**(614)**	**(100)**	**(85)**	**(212)**	**(1,310)**
Foreign exchange differences	**16**	**(26)**	**(6)**	**1**	**(8)**	**(23)**
December 31, 2012						
Carrying value	**5,138**	**6,492**	**1,184**	**1,376**	**1,302**	**15,492**
Accumulated Depreciation	**(4,115)**	**(4,958)**	**(813)**	**(1,150)**	**(892)**	**(11,928)**
Net book value	**1,023**	**1,534**	**371**	**226**	**410**	**3,564**

December 31, 2012 and 2011 [$ thousands]

13. INTANGIBLE ASSETS AND GOODWILL

	Customer relationship	Patents	Trade-marks	Computer software	Intangible assets	Goodwill
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
Additions		—		—	—	
Amortization	**(5,997)**	**(323)**		**(127)**	**(6,447)**	
Foreign exchange differences	**(153)**	**(63)**	**(25)**	**(17)**	**(258)**	**(721)**
December 31, 2012						
Carrying value	**62,851**	**3,701**	**3,312**	**2,343**	**72,207**	**70,367**
Accumulated amortization	**(49,638)**	**(2,397)**		**(1,887)**	**(53,922)**	
Net book value	**13,213**	**1,304**	**3,312**	**456**	**18,285**	**70,367**

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. Four 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 14%. For periods beyond the budget period, cash flows were extrapolated using long term average growth rates of 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 18, 2012 to extend the maturity by 3 years to May 31, 2015 and lower the interest rate by 0.95% on the term and revolving facilities. The revolving credit facility availability of $5,000 [2011 – $5,000] bears interest at the prime rate plus a premium of 0.55% to 0.80%. The effective interest rate at December 31, 2012 was 3.6% [2011 – 3.6%]. There was no amount drawn on the facility at December 31, 2012 or 2011. The term facility of $41,500 [2011 – $44,500] bears interest at the bankers' acceptance borrowing rate plus a premium of 1.55% to 1.80%. The effective interest rate at December 31, 2012 was 3.4% [2011 – 3.9%]. Repayments of term debt of $3,000 [2011 – $3,500] were made during the year ended December 31, 2012.

December 31, 2012 and 2011 [$ thousands]

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

	2012	**2011**
Interest expense	**1,568**	1,920
Credit card fees	**662**	604
Bank refinancing fees	**100**	—
Credit facility charges	**217**	127
	2,547	2,651

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

Number outstanding	**Units basic**	**Weighted average**	**Exchangeable shares**	**Units diluted**	**Weighted average**
December 31, 2010	10,743,470	10,054,973	1,059,043	11,802,513	11,808,428
Units purchased	—			—	
December 31, 2011	10,743,470	10,743,470	1,059,043	11,802,513	11,802,513
Units purchased	(27,500)			(27,500)	
December 31, 2012	**10,715,970**	**10,735,721**	**1,059,043**	**11,775,013**	**11,794,764**

The impact on income per Unit of the mark-to-market loss (gain) and distributions to exchangeable shareholders is anti-dilutive which reverts back to basic income per Unit [2011 – dilutive $0.11 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 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 13, 2012 to purchase up to 200,000 Units prior to March 12, 2013. During the year, 27,500 Units were purchased [2011 – nil] at an average price of $8.85/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 and Richards Packaging Holdings (US) Inc. are redeemable on the fifth anniversary of their issue date 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. The Fund has the option to settle the redemption of Exchangeable shares issued by Richards Packaging Holdings (US) Inc. 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.

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. Distributions in 2012 began at $704 and ended at $702, 6.55¢ per Unit, reflecting unit buyback activity by the Fund. The board of Trustees approved a reduction in the capital account for distributions made for 2012.

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, 2012 was 1.91 [2011 – 2.20]. 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.

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.

December 31, 2012 and 2011 [$ thousands]

17. RELATED PARTY TRANSACTIONS AND INVESTMENT

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

	2012	2011
Leases of facilities from entities related to certain officers	**477**	471
Management fee from Vision	**89**	—
Product purchases from Vision	**6,330**	6,069

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:

	2012	2011		2012	2011
Statement of financial position					
Assets			**Liabilities**		
Current assets	**1,046**	1,137	Current liabilities	**862**	421
Plant and equipment	**402**	433			
Total assets	**1,448**	1,570	**Net assets**	**586**	1,149
Statement of net income					
Revenue				**6,330**	6,069
Expenses				**6,138**	6,290
Net income (loss)				**192**	(221)

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 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, based on 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, 2012, 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, 2012 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, 2012 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 $317 [2011 – $305].

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 $62 has been recorded for the year ended December 31, 2012 [2011 – gain of $20] relating to cross-border transactions.

December 31, 2012 and 2011 [$ thousands]

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
2013	**483**	**3,269**	**3,752**
2014	**487**	**2,362**	**2,849**
2015	**491**	**1,640**	**2,131**
2016	**433**	**1,182**	**1,615**
2017	**410**	**913**	**1,323**
Thereafter	**1,307**	**939**	**2,246**

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.

In 2012, the Mexican customs authorities assessed additional duties of $143 and penalties and interest of $293 for product misclassified on goods imported into Mexico. Management is challenging the assessment and has retained counsel to have the classification overturned. Management's evaluation of the claim is that it is more than likely that the claim will be successful. If successful, costs would be recovered net of legal costs of $99.

20. ADDITIONAL CASH FLOW INFORMATION

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

	2012	2011
Accounts receivable	**(868)**	(21)
Inventory	**(3,612)**	(1,602)
Prepaid expenses and deposits	**(209)**	168
Accounts payable and accruals	**(808)**	2,299
Disputed duties *[note 19]*	**439**	—
	(5,058)	844

Richards Packaging Income Fund

UNITHOLDER INFORMATION

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

6095 Ordan Drive
Mississauga, Ontario L5T 2M7
(905) 670-7760

Auditors

PricewaterhouseCoopers LLP
PWC Tower
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 10, 2013 at 9:30 a.m.
Brookfield Place
181 Bay Street, Suite 4400
Toronto, Ontario M5J 2T3