2004 ANNUAL REPORT

Richards Packaging Income Fund

April 7 to December 31, 2004

Report Contents

Richards

Richards Packaging Income Fund

CEO'S REPORT TO UNITHOLDERS

December 31, 2004

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 fourth quarter results were disappointing with the gross margin flat when compared with the same period in 2003. The additional $0.2 million contribution for the month of December from the acquisitions' operations was fully offset by the $0.9 million of revenue loss caused by disruptions to our operations in Canada during the implementation of a new management information system. We thank our customers for their understanding and management is dedicated to improving our service levels as we go forward.

Other components of revenue loss during the fourth quarter include $1.3 million for the strategic repositioning program, with the annual impact clearly indicated on the chart on page 6, and $1.1 million from the translation of our US operations as the Canadian dollar strengthened US/Cdn$0.06 from the fourth quarter in 2003. Offsetting these impacts was a $0.4 million gain resulting from management of our cross-border transaction exposures.

Administration costs were $0.4 million higher in the fourth quarter, half of which are run rate costs. We expect public company costs to be $0.2 million per quarter as we go forward.

In spite of a difficult fourth quarter, Richards Packaging Income Fund delivered strong results for the period April 7 to December 31, 2004 producing an EBITDA[1] of $10.9 million. Overall revenue and income growth met management's expectations. We have now built a strong platform from which to grow profitability, with EBITDA[1] as a percent of sales rapidly approaching our long-term target of 10%[5].

Significant achievements in the year included the launch of Richards Packaging as an Income Fund on April 7th, the addition of 3 strategic acquisitions during the fourth quarter and the completion of a new management information system for the Canadian operations that will carry Richards forward for the next decade.

We enter 2005 as a leading North American packaging distribution company with a clear business strategy, a strong balance sheet, a high quality sales organization and a dedication to providing our customers with innovative value add packaging solutions. Our three acquisitions added on November 30th are each a perfect strategic fit. We are excited by their prospects and welcome their employees to the Richards family.

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

"Gerry Glynn" March 31, 2005
Chief Executive Officer and Trustee
Richards Packaging Income Fund

Richards Packaging Income Fund

INDEPENDENT TRUSTEES' REPORT

December 31, 2004

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

The trustees have established two committees for continuous monitoring of activities critical to the external auditors and good corporate governance. The audit committee is responsible for overseeing the activities of the external auditors, Ernst & Young LLP, the quality and thoroughness of financial reporting and the effectiveness of internal controls in providing financial information and safeguarding assets of Richards Packaging. The compensation and corporate governance committee reviews the compensation plans for senior management and the trustees, monitors succession plans and assesses managements performance. All members of both committees are independent trustees.

Each trustee and officer of Richards Packaging is a unitholder and combined, own 21% of the Fund. Accordingly our motivation and interests are aligned with the public unitholders. Overall our goal as trustees is to add value to Richards Packaging by contributing our broad experience and expertise in directing a controlled growth oriented enterprise.

The Fund paid monthly distributions of $0.0854 per unit for May through December 2004 and $0.0935 per unit beginning with January 2005, with total distributions per unit of $0.933 since the inception of the Fund. The board of trustees is comfortable with a target payout ratio of 90% and has maintained an average payout ratio of 91% for the period April 7 to December 31, 2004. The trustees will continue to monitor the performance of Richards Packaging with the objective of delivering stable and predictable distributions to unitholders.

In closing, we are satisfied with the progress made on governance of the Fund during its' first year of existence and will continue to strive to serve the interests of the public unitholders applying the highest of standards of duty and care.

"Don Wright"	*"Wayne McLeod"*	*"Bill Ferguson"*	*"Derek Ridout"*
Chairman	Chair - audit committee	Trustee	Chair – compensation & corporate governance committee

March 31, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

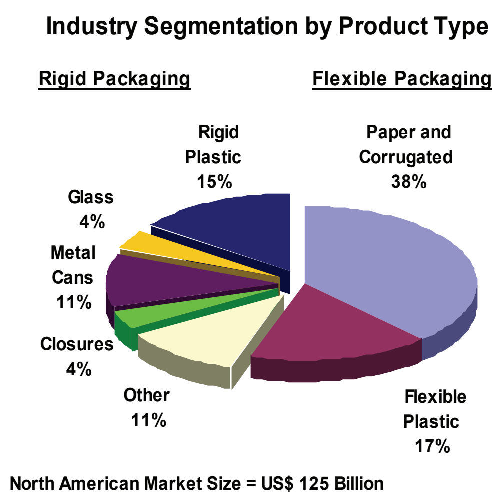
[expressed in thousands, except where otherwise indicated
and per unit amounts]

March 28, 2005

This management's discussion and analysis of Richards Packaging Income Fund ("MD&A") for the 2004 year 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

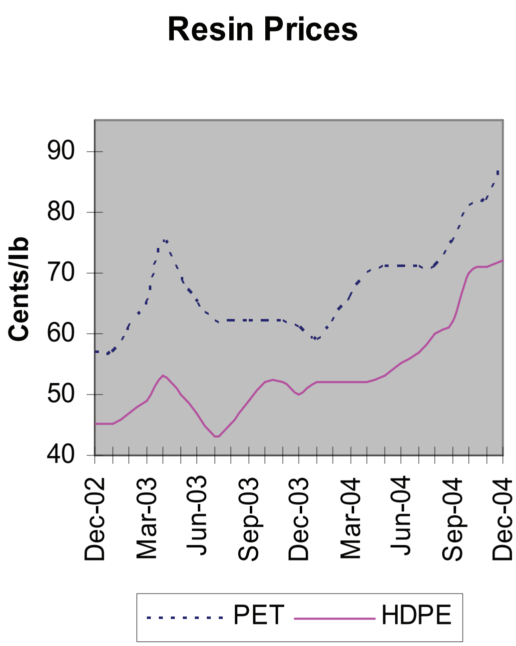
Packaging is pervasive, as almost all products are delivered in some form of packaging. The properties of this packaging fulfils not only the practical, transportability, protection functions and shelf life, but also serves to differentiate products and communicate branding messages such as quality, 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. Growth in 2004 was 3% for plastics, 2% for glass and flat for metal.

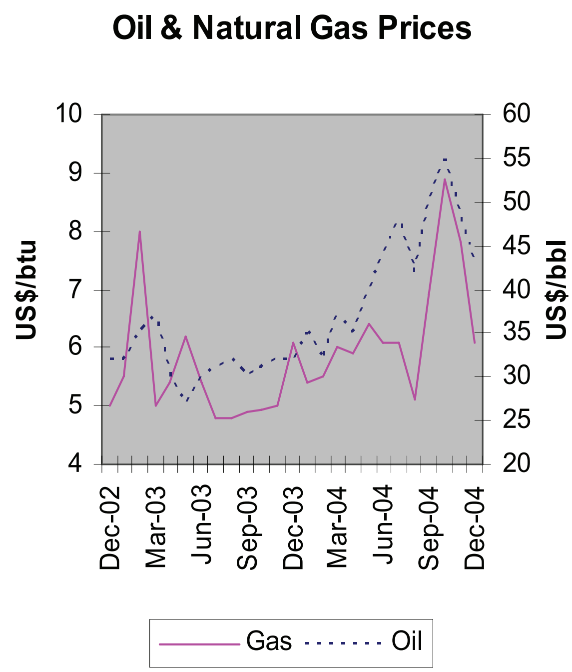


As large product marketers have consolidated, packaging companies have embarked on a parallel industry consolidation strategy to meet their needs. Concentration is high in the glass, metal and paper segments with 3 to 5 companies controlling approximately 90% of their market, and medium in the rigid 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[5]. 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[4] 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[1] as a percent of sales has remained at a healthy 13% overall for 2004.

March 28, 2005





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.

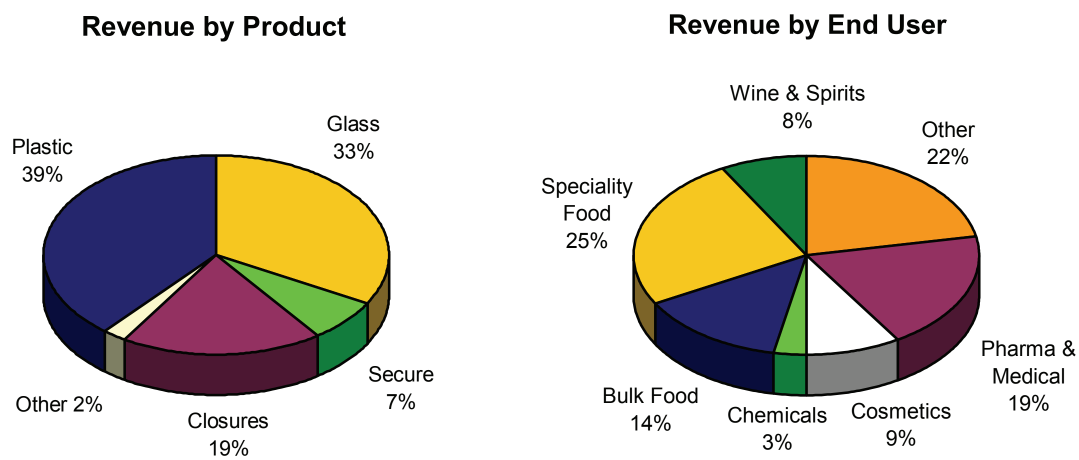
Richards Packaging Inc. serves a wide customer base that is comprised of over 6,000 regional food, beverage, cosmetic, specialty chemical, pharmaceutical and other companies. The primary source of revenue is from the distribution of over 5,000 different types of packaging containers and related components 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

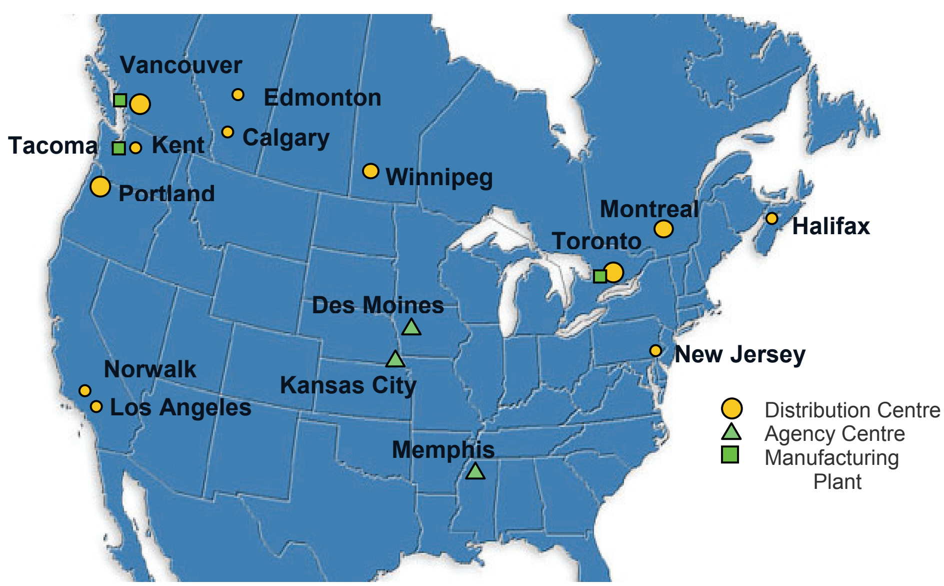
MANAGEMENT'S DISCUSSION AND ANALYSIS

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

March 28, 2005



Richards Packaging Locations



Richards Packaging Income Fund

MANAGEMENT'S DISCUSSION AND ANALYSIS

[expressed in thousands, except where otherwise indicated
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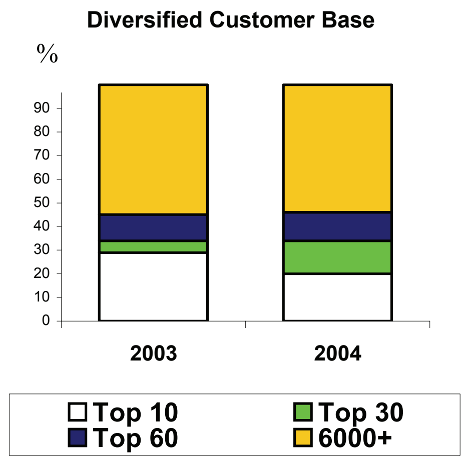
March 28, 2005

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[1] and $1.2 million of distributable cash[5] on an annual basis.
- Organic growth of 1.1%, over the same period in 2003, partially offsetting the impacts of foreign exchange and strategic product repositioning.
- Increased the EBITDA[1] as a percent of sales to 9.7%, 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 15th payment.
- Increased distributable cash flow[2] by $0.05 per unit or 7.0% from three quarters of the annual target outlined in the Prospectus. Given the cumulative distributions declared of $0.746 per unit, the implied payout ratio[3] was 91%.

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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(1)	2003(2)
	$	$	$	$	$	$	$	$
Income Statement Data:								
Revenue	**37,917**	**39,950**	**39,803**	**39,771**	**35,598**	**38,545**	**113,318**	**118,266**
EBITDA[1]	**3,534**	**3,451**	**3,989**	**4,095**	**3,451**	**3,813**	**10,974**	**11,359**
Basic & diluted per unit	*$0.330*	*$0.322*	*$0.372*	*$0.382*	*$0.321*	*$0.356*	*$1.024*	*$1.060*
Net income	**284**		**3,102**		**2,299**		**5,685**	
Basic & diluted per unit	*$0.027*		*$0.290*		*$0.214*		*$0.530*	
Balance Sheet Data:								
Total assets	**162,920**		**157,900**		**163,693**			
Bank debt	**24,599**		**23,194**		**25,673**			
Cash Flow Statement Data:								
Distributions per unit and dividends per share	**$0.233**		**$0.256**		**$0.257**		**$0.746**	
Payout ratio[3]	***85%***		***87%***		***102%***		***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 91% ratio for the nine months ending December 31, 2004 is within the Funds target payout ratio of 90%.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

March 28, 2005

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**(1)	**2003**(2)
	$	$	$	$	$	$	$	$
Revenue	**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**
EBITDA[1]	**3,534**	**3,451**	**3,989**	**4,095**	**3,451**	**3,813**	**10,974**	**11,359**
Net Income	**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[5].

Cost of products sold decreased by $2.5 million for the fourth quarter, or 7.6%, and by $4.9 million for the nine months ended December 31, 2004, or 4.8%, 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

31, 2004 the decreased cost of products sold resulted in a gross profit percent improvement of 0.6%, 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 $0.7 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 1.3% on sales, from our internal hedging program on cross-border transactions.

Other expenses of the Fund for the fourth quarter included $2.0 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 $7.1 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[5].

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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 Packaging 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[2]

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**(1)	**2003**(2)
	$	$	$	$	$	$	$	$
Cash provided by operating activities	**800**		**3,978**		**7,103**		**11,881**	
Changes working capital	**2,602**		**(414)**		**(4,535)**		**(2,347)**	
Non-cash charges	**132**		**425**		**883**		**1,440**	
EBITDA[1]	**3,534**		**3,989**		**3,451**		**10,974**	
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)**	
Distributable cash flow[2] ...	**2,951**	**2,745**	**3,172**	**2,745**	**2,692**	**2,745**	**8,815**	**8,235**
Basis & diluted per unit...	***$0.276***	***$0.256***	***$0.296***	***$0.256***	***$0.250***	***$0.256***	***$0.822***	***$0.768***
Distributions and dividends	**2,500**		**2,745**		**2,756**		**8,001**	
Basic & diluted per unit ..	***$0.233***		***$0.256***		***$0.257***		***$0.746***	
Payout ratio[3]	***85%***		***87%***		***102%***		***91%***	
Units & shares outstanding on a diluted basis	**10,711**		**10,711**		**10,735**		**10,720**	

(1) Amounts are derived from the audited consolidated financial statements.
(2) Amounts are derived from the Prospectus except for the number of units and shares outstanding.

The distributable cash flow[2] definition excludes changes in working capital as they are necessary to drive organic growth and are expected to be financed by a $5.0 million revolving facility available to 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 1.9%. 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[5].

The distribution for April was prorated for a short month with full distributions beginning for the month of May at $0.0854 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 exchangeable 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 $4.5 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 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 31st 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[5].

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
	38,620	7,973	26,161	3,342	1,144

Outlook[5]

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

Richards Packaging's 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 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.

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 $17.4 million associated future income tax recovery at December 31, 2004, 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.

March 28, 2005

Additional Information

Additional information relating to the Fund, including the Prospectus, is available on SEDAR at www.sedar.com or on TSX at www.tsx.com .

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

March 28, 2005

AUDITORS' REPORT

To the Unitholders of
Richards Packaging Income Fund

We have audited the consolidated balance sheet of Richards Packaging Income Fund as at December 31, 2004 and the consolidated statements of income and deficit and cash flows for the period from April 7, 2004 to December 31, 2004. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2004 and the results of its operations and its cash flows for the period from April 7, 2004 to December 31, 2004 in accordance with Canadian generally accepted accounting principles.

Toronto, Ontario
March 28, 2005

(Signed) Ernst & Young LLP
Chartered Accountants

Richards Packaging Income Fund

CONSOLIDATED BALANCE SHEET

[expressed in thousands of dollars]

As at December 31

	2004
	$
ASSETS *[note 7]*	
Current	
Cash and cash equivalents	**3,507**
Accounts receivable	**20,872**
Inventory	**22,253**
Prepaid expenses	**1,492**
Income taxes recoverable	**1,245**
Total current assets	**49,369**
Capital assets, net *[note 4]*	**6,747**
Deferred financing fees, net	**1,474**
Intangible assets, net *[note 5]*	**47,373**
Future income taxes *[note 11]*	**3,337**
Goodwill *[notes 1, 3 and 6]*	**55,393**
	163,693
LIABILITIES AND UNITHOLDERS' EQUITY	
Current	
Accounts payable and accrued liabilities	**21,817**
Income taxes payable	**276**
Distributions payable to unitholders *[note 10]*	**876**
Dividends payable to exchangeable shareholders *[note 10]*	**45**
Due to officers *[note 13]*	**684**
Short-term debt and current portion of long-term debt *[note 7]*	**3,653**
Total current liabilities	**27,351**
Long-term debt *[note 7]*	**22,020**
Future income taxes *[note 11]*	**18,309**
Total liabilities	**67,680**
Commitments and contingencies *[note 8]*	
Unitholders' equity	
Units and exchangeable share capital *[note 9]*	**101,019**
Deficit, end of period	**(2,316)**
Cumulative translation adjustments *[note 12]*	**(2,690)**
Total unitholders' equity	**96,013**
	163,693

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

"Donald Wright"	*"Wayne McLeod"*	*"Gerry Glynn"*
Chairman	Chair – audit committee	CEO

Richards Packaging Income Fund

CONSOLIDATED STATEMENT OF INCOME AND DEFICIT

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

For the period from April 7 to December 31

	2004 $
Revenue	**113,318**
Cost of products sold	**96,922**
	16,396
Foreign currency gains from operations *[note 15]*	**449**
General and administrative expenses	**(5,871)**
Income before under noted items and income taxes	**10,974**
Amortization	
Capital assets *[note 4]*	**1,506**
Intangible assets *[note 5]*	**5,127**
Deferred financing fees	**494**
Interest expense *[note 7]*	**1,154**
Unrealized gains on financial instruments *[note 15]*	
Interest rate swap contracts	**(237)**
Foreign exchange forward agreement	**(151)**
Foreign exchange on translation of long-term debt	**(1,802)**
Income before income taxes	**4,883**
Income tax provision (recovery) *[note 11]*	
Current	**286**
Future	**(1,088)**
	(802)
Net income for the period	**5,685**
Deficit, beginning of period	**—**
Distributions declared to unitholders	**(7,649)**
Dividends declared to exchangeable shareholders	**(352)**
Deficit, end of period	**(2,316)**
Basic and diluted income per Unit and share	**$0.530**
Weighted average number of Units and shares outstanding	**10,719,810**

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

Richards Packaging Income Fund

CONSOLIDATED STATEMENT OF CASH FLOWS
[expressed in thousands of dollars]

For the period from April 7 to December 31

	2004 $
OPERATING ACTIVITIES	
Net income for the period	**5,685**
Add (deduct) items not involving cash	
Amortization	**7,127**
Future income taxes	**(1,088)**
Unrealized gains on financial instruments *[note 15]*	**(388)**
Unrealized foreign exchange gain on long-term debt	**(1,802)**
	9,534
Net change in non-cash operating elements of working capital *[note 16]*	**2,347**
Cash provided by operating activities	**11,881**
INVESTING ACTIVITIES	
Additions to capital assets	**1,608**
Acquisition of Richards Packaging Inc., net of cash acquired of $112 *[note 1]*	**69,185**
Acquisitions during the period, net of cash acquired of $163 *[note 3]*	**6,352**
Cash used in investing activities	**77,145**
FINANCING ACTIVITIES	
Decrease in bank indebtedness	**(664)**
Proceeds from short and long-term debt, net	**3,563**
Initial public offering of Fund Units, net of expenses	**75,921**
Repayment of due to officers	**(244)**
Dividends paid to exchangeable shareholders	**(307)**
Distributions paid to unitholders	**(6,773)**
Cash provided by financing activities	**71,496**
Foreign currency translation loss	**2,725**
Net increase in cash and cash equivalents	**3,507**
Cash and cash equivalents, beginning of period	**—**
Cash and cash equivalents, end of period	**3,507**

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

[expressed in thousands except for unit and per unit amounts]

1. FORMATION OF THE FUND AND ACQUISITION

Richards Packaging Income Fund [the "Fund"] is an open-ended, limited purpose trust established under the laws of the Province of Ontario by a Declaration of Trust dated February 26, 2004. The Fund remained inactive until April 7, 2004 when the Fund completed an initial public offering of 8,569,913 trust units of the Fund (the "Units") at a price of $10 per unit, realizing gross proceeds of $85,699 to facilitate the acquisition of all of Richards Packaging Inc. shares and an indenture note through a series of transactions.

The Fund indirectly purchased all of the shares of Richards Packaging Inc. for $90,713, including acquisition costs of $417. The consideration consisted of $68,880 in cash, the issuance of 1,686,414 Units at a price of $10 per unit and the issuance of 455,185 Richards Packaging Holdings Inc.'s exchangeable shares at a price of $10 per share, exchangeable into an equal number of Units. This acquisition has been accounted for using the purchase method and accordingly, the results of operations from April 7, 2004 have been included in these financial statements and no comparative information is provided. The consideration paid has been allocated to the assets acquired based on their fair values and the excess of the purchase price over the value of the net identifiable assets acquired has been recorded as goodwill. All acquired intangible assets, other than goodwill, are subject to amortization. The allocation of the purchase price is as follows:

	$
Current assets	**42,715**
Capital assets	**6,445**
Deferred financing fees	**1,977**
Intangible assets – customer orders	**1,500**
Intangible assets – customer relationships and contracts	**47,700**
Total assets acquired	**100,337**
Current liabilities	**20,583**
Long-term debt	**23,958**
Future income tax liability	**17,676**
Total liabilities assumed	**62,217**
Fair value of net assets acquired	**38,120**
Goodwill	**52,593**
Purchase price	**90,713**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. These statements cover the period from the Fund's initial public offering on April 7, 2004 through to December 31, 2004.

Principles of consolidation

The consolidated financial statements include the accounts of the Fund, Richards Packaging Holdings Inc. ["Holdings"], Richards Packaging Inc. ["Richards Can"], and Richards Packaging, Inc. ["Richards US"], all wholly-owned directly or indirectly by the Fund, and 50% of Vision Plastics Inc., one of its 3 plastic containers manufacturing plants, which is jointly controlled.

Revenue recognition

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

Cash and cash equivalents

Cash and cash equivalents include cash on hand, demand deposits and highly liquid investments with a term to maturity of three months or less at the date of purchase.

Inventory

Raw materials are valued at the lower of cost and replacement value and products available for sale are valued at the lower of cost and net realizable value. Cost is determined on a first-in, first-out basis.

Capital assets

Capital assets are initially recorded at cost. Repairs and maintenance are charged to operations as incurred. Amortization is computed using the straight-line or diminishing balance method over the remaining estimated useful lives of the capital assets as outlined below:

Manufacturing equipment	straight-line over 7 years
Moulds	straight-line over 4 years
Computer equipment	30% diminishing balance
Computer software and systems implementation	straight-line over 5 years
Warehouse and office equipment	20% diminishing balance
Leasehold improvements	straight-line over the term of the lease

Deferred financing

The costs of obtaining long-term debt are deferred and amortized on a straight-line basis over the term of the debt to which those costs relate.

Intangible assets

Intangible assets with a finite life are recorded at cost and are amortized on a straight-line basis over the period of expected future benefit. Customer orders are amortized as the orders are being shipped. Customer relationships and contracts are amortized on a straight-line basis over 10 years.

Goodwill

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

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

Long-lived assets

Long-lived assets comprise capital assets and intangible assets subject to amortization. Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. For purposes of evaluating the recoverability of long-lived assets, the recoverability test is performed using undiscounted future net cash flows of the asset. The amount of the impairment is measured as the difference between the carrying value and the fair value of the asset and recognized by way of an additional current period amortization charge.

Income taxes

Income tax obligations relating to distributions of the Fund are the obligations of the unitholders, and accordingly, no provision for income taxes has been made in respect of the Fund itself. A provision has been recognized for the Fund's subsidiary companies, which are subject to tax.

The Fund's subsidiary companies follow the liability method to account for income taxes whereby future tax assets and liabilities are determined based on temporary differences between the carrying amounts and the tax basis of assets and liabilities. Future tax assets and liabilities are measured using the substantively enacted tax rates that will be in effect when these differences are expected to reverse. Future tax assets, if any, are recognized only to the extent that, in the opinion of management, it is more likely than not that the assets will be realized.

Long-term incentive plan

Management of the Fund is eligible to participate in the Fund's long-term incentive plan. For a period of 3 years beginning April 7, 2004 the Fund will purchase in the open market Units to be awarded to the extent that distributions to the unitholders exceed the annual target of $1.025 per Unit. Units so awarded will be expensed in the period that they are granted. No Units were awarded during the period as distributions did not exceed this level for the period.

Foreign currency translation

The unit of measure for the Fund and related entities, except for Richards US, is the Canadian dollar and accounts in foreign currency have been translated into Canadian dollars. Monetary items are recorded at exchange rates in effect at the consolidated balance sheet date and non-monetary items are recorded at the exchange rates in effect on the date of the transaction. Revenue and expenses are recorded at average exchange rates prevailing during the period, except for amortization, which is translated at rates prevailing when the related assets were acquired. Gains and losses arising from foreign currency translation are included in income.

Richards US is treated as a self-sustaining foreign operation. All assets and liabilities are translated at exchange rates in effect at the consolidated balance sheet date. Revenue and expenses, including amortization, are translated at average exchange rates prevailing during the period. Any resulting gains or losses are included in unitholders' equity and described as a cumulative translation adjustment.

Derivative financial instruments

Derivative financial instruments are utilized to reduce foreign currency and interest rate risk on the Fund's debt. The Fund does not enter into financial instruments for trading or speculative purposes.

The Fund has not elected to designate its interest rate swap contracts and foreign currency standard rate agreements as hedges for accounting purposes and, accordingly, will record the fair value of these derivatives using a mark-to-market valuation basis, with changes during the period recognized in net income.

Use of estimates

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

[expressed in thousands except for unit and per unit amounts]

3. ACQUISITIONS

Effective November 30, 2004 the Fund indirectly acquired all the shares of Kay Containers Ltd. [“Kay”], Calgary Plastics Container Supply Ltd. [“Calgary”] and M.A. Foss Distributors Ltd. [“Foss”] for consideration of $7,636 including acquisition costs of $110. The consideration was satisfied by cash payments of $6,405, which was partially financed by the credit facility *[note 7]*, and the issuance of 69,500 Holdings exchangeable shares at $10 per share and obligation of $426 to the former shareholders associated with various representations and warrantees in the purchase and sale agreements. These acquisitions have been accounted for by the purchase method. Consequently, the results of operations and cash flows are included in the consolidated financial statements from the effective date of acquisition. The allocation of the purchase price is as follows:

	Foss $	**Kay** $	**Calgary** $	**Total** $
Current assets	**483**	**1,681**	**118**	**2,282**
Capital assets	**11**	**221**	**36**	**268**
Customer relationships and contracts	**1,800**	**1,500**	**—**	**3,300**
Total assets acquired	**2,294**	**3,402**	**154**	**5,850**
Current liabilities	**224**	**1,060**	**97**	**1,381**
Future income tax liability	**624**	**561**	**—**	**1,185**
Total liabilities assumed	**848**	**1,621**	**97**	**2,566**
Fair value of net assets acquired	**1,446**	**1,781**	**57**	**3,284**
Goodwill *[note 6]*	**1,968**	**1,332**	**1,052**	**4,352**
Purchase Price	**3,414**	**3,113**	**1,109**	**7,636**

These entities were amalgamated with the Fund’s subsidiaries effective December 1, 2004.

4. CAPITAL ASSETS

	Cost $	**Accumulated amortization** $	**Net book value** $
Manufacturing equipment	**3,310**	**730**	**2,580**
Moulds	**2,180**	**556**	**1,624**
Computer equipment	**464**	**82**	**382**
Computer software and system implementation	**1,424**	**13**	**1,411**
Warehouse and office equipment	**758**	**107**	**651**
Leasehold improvements	**117**	**18**	**99**
	8,253	**1,506**	**6,747**

[expressed in thousands except for unit and per unit amounts]

Cost represents the fair value of the capital assets acquired in the initial acquisition of Richards Packaging Inc. *[note 1],* from acquisitions during the period *[note 3]* and the cost of capital asset additions. Accordingly, accumulated amortization only consists of amortization recorded during the period from April 7 to December 31, 2004.

5. INTANGIBLE ASSETS

	Cost $	**Accumulated amortization** $	**Net book value** $
Customer orders	**1,500**	**1,500**	**—**
Customer relationships and contracts	**51,000**	**3,627**	**47,373**
	52,500	**5,127**	**47,373**

Cost represents the fair value of intangible assets acquired with the purchase of Richards Packaging Inc. *[note 1]* and the acquisitions during the year *[note 3]*. As at December 31, 2004 there have been no significant changes in the methods used to determine the fair market value of the intangible assets, therefore no impairment charge was necessary during the period then ended.

6. GOODWILL

Changes in the carrying amounts of goodwill are as follows:

	$
Goodwill acquired on the initial acquisition as at April 7, 2004 *[note 1]*	**52,593**
Goodwill acquired on acquisitions during the period *[note 3]*	**4,352**
Foreign currency translation	**(1,552)**
Balance December 31, 2004	**55,393**

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

7. SHORT AND LONG-TERM DEBT

Immediately prior to the initial public offering by the Fund, Richards Packaging Inc. obtained new credit facilities. The fees associated with this refinancing will be deferred and amortized over the 3-year term of these facilities. Credit facilities available to the Fund are outlined below:

[expressed in thousands except for unit and per unit amounts]

December 31, 2004

Debt facility	Due date	Interest rate	Outstanding balance $	Total facilities $
Revolving credit	June 6, 2005	See [i] below	**—**	**5,000**
Acquisition credit	June 6, 2005	See [ii] below	**3,602**	**6,319**
Term loans	See [iii] below	See [iii] below	**51**	**51**
Short-term debt and current portion of long-term debt			**3,653**	
Term loan	April 6, 2007	See [iv] below	**21,906**	**21,906**
Term loan	See [iii] below	See [iii] below	**114**	**114**
Long-term debt			**22,020**	

[i] The revolving credit facility consists of a Canadian operating line of credit of $5,000 bearing interest at the prime rate plus a premium of 1.0% to 1.75% depending on the Fund's total EBITDA[1] and a standby fee of 0.4% to 0.55% depending on the Fund's total debt to EBITDA ratio.

[ii] The acquisition credit facility consists of a line of credit of U.S.$5,250 bearing interest at Libor plus a premium of 2.0% to 2.75% depending on the Fund's total debt to EBITDA and a standby fee of 0.4% to 0.55% depending on the Fund's total debt to EBITDA ratio. The effective interest rate at December 31, 2004 was 4.9%.

[iii] The outstanding balance consists of two term loans of $150 and $15 bearing interest at the prime rate plus 0.75% with monthly principal repayments of $3 and $5 respectively. The term loan of $150 matures August 5, 2008 and the term loan of $15 matures March 23, 2005. The effective interest rate at December 31, 2004 was 4.7%.

[iv] The term loan consists of a U.S.$18,200 loan bearing interest at Libor plus a premium of 2.0% to 2.75% depending on the Fund's total debt to EBITDA. The interest rate is subject to a fixed rate swap with an effective interest rate for the period from April 7, to December 31, 2004 of 4.7%, which is approximately 0.7% above the variable rate during that period. The effective interest rate at December 31, 2004 was 4.7%.

The acquisition credit and the term loan, except as noted in [iii] above, are payable in full on the due dates outlined in the above table.

Interest expense for the period April 7, 2004 to December 31, 2004 is comprised as follows: term loan and acquisition credit interest of $863, credit card commission charges of $206 and credit facility charges of $85.

Richard Can has provided a first charge over all of its assets as collateral for the revolving credit facility, the acquisition credit facility and the term loans.

[expressed in thousands except for unit and per unit amounts]

8. COMMITMENTS AND CONTINGENCIES

The minimum rental payments, exclusive of occupancy charges, required under the leases for the Fund's premises for the years ending December 31, are as follows:

	Related parties $	Other $	Total $
2005	**424**	**2,108**	**2,532**
2006	**33**	**2,128**	**2,161**
2007	**33**	**1,947**	**1,980**
2008	**33**	**1,703**	**1,736**
2009	**25**	**1,581**	**1,606**
Thereafter	—	**1,144**	**1,144**

In the ordinary course of business, the Fund is involved in litigation and other claims. It is management's opinion that the ultimate outcome of litigation will not have a material adverse effect on the financial position or operating results of the Fund.

9. UNITS AND EXCHANGEABLE SHARE CAPITAL

The capital contributions by unitholders of the Fund and exchangeable shareholders of Holdings are included in Units and exchangeable share capital on the consolidated balance sheet as follows:

	$
Units issued on initial public offering, 8,569,913 units	**85,699**
Units issued for partial acquisition of Richards Packaging Inc., 1,686,414 units	**16,864**
Exchangeable shares issued, 524,685 shares	**5,247**
Units issuance costs, net of capital contributions and future income taxes	**(6,791)**
	101,019

No new Units were issued after April 7, 2004, the date of the initial public offering. 455,185 exchangeable shares were issued on the initial public offering and 69,500 exchangeable shares were issued during the period at $10 per share as partial consideration for a business acquisition *[note 3]*.

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. This limitation may be waived at the discretion of the Trustees of the Fund. Redemptions in excess of this amount, assuming no waiving of the limitation, shall be paid by way of a distribution in specie of a pro rata number of Holdings' securities held by the Fund.

[expressed in thousands except for unit and per unit amounts]

Exchangeable shares

The exchangeable shares were issued by Holdings to officers of the Fund in exchange for shares of the Fund. These exchangeable shares are retractable by Holdings on April 7, 2009, or prior to that date in limited circumstances, and are redeemable by the shareholders at any time. A retraction or redemption of exchangeable shares will be paid in Units on a one-for-one basis. Exchangeable shares carry the right to vote at any meeting that unitholders are entitled to vote on the same basis.

Long-term incentive plan

Key senior management of Richards Packaging Inc. are eligible to participate in the Fund's long-term incentive plan (the "LTIP"). The purpose of the LTIP is to attract, retain and motivate key personnel who contribute significantly to per Unit cash flow. Units awarded under the plan will vest over a 3 year period. To the extent that annual distributions exceed $1.025 per year the following amounts will be contributed by the Fund to the plan:

Amount of excess distributions per unit	Payout of excess distributions % of excess
< $0.05 per unit	10%
$0.05 to $0.10 per unit	15%
>$0.10 per unit	20%

It is the policy of the Fund to accrue awards under the LTIP during the period that they are granted. Distributions for the nine months ending December 31, 2004 did not exceed the threshold and therefore no contributions were made to the plan.

10. CUMULATIVE DISTRIBUTIONS

Distributions are made monthly to unitholders of record on the last business day of each month and paid on the 15th day of the following month. Dividends paid to the exchangeable shareholders are not subordinated to distributions to unitholders and are declared on the same basis. Distributions and dividends declared during the period April 7 to April 30 were $642 or $0.0624 per Unit and $28 or $0.0624 per share respectively. The monthly distributions and dividends for the months of May through December have remained constant at $876 or $0.0854 per Unit and $39 or $0.0854 per share respectively with the exception of dividends for December 2004 which was higher by $6 on the new exchangeable shares issued associated with the acquisitions *[note 3]*.

[expressed in thousands except for unit and per unit amounts]

11. INCOME TAXES

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

	$
Income before income taxes	**4,883**
Distributions to unitholders, not subject to tax in the Fund	**(7,080)**
	(2,197)
Statutory tax rate	**36.1%**
Income tax recovery at statutory tax rate	**(793)**
Adjustments to income taxes	
Temporary differences	
Unrealized gains on financial instruments	**(454)**
Equity placement fees	**(263)**
Penalty on discharge of debt	**(142)**
Intangible assets	**1,944**
Loss for income tax not utilized	**278**
Amortization	**(275)**
Current period adjustments	
Foreign exchange gain on translation of long-term-debt	**(326)**
Withholding tax on dividends and fees from US operations	**348**
Other	**(31)**
Current income taxes	**286**
Future income taxes recovery	**(1,088)**

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

	$
Future tax assets	
Equity placement fees	**2,509**
Loan termination fees	**550**
Loss for income tax not utilized	**278**
	3,337
Future tax liabilities	
Capital assets	**462**
Unrealized gains on financial instruments	**445**
Customer relationships and contracts	**17,402**
	18,309

[expressed in thousands except for unit and per unit amounts]

In addition to the equity placement fees accounted for above, the Fund has approximately $1,700 of fees available to be deducted over the next four years.

The Fund structure involves inter-company debt, generating interest expense, which serves to reduce earnings and therefore income tax payable in the United States. Richards U.S. claimed interest deductions with respect to the U.S. Notes ("Notes") in computing its income for U.S. federal income tax purposes. The Fund received tax opinions on certain matters relating to this inter-company debt. The consolidated financial statements of the Fund reflect these opinions, specifically that the Notes should be respected as debt; and the interest on the Notes, of $1,149 for the period April 7 to December 31, 2004, should be deductible by Richards U.S. for United States federal income tax purposes, subject to any limitations under the earnings stripping rules.

There can be no assurance that the Internal Revenue Services ("IRS") will not challenge the tax filing position taken by Richards U.S., in which case some or all of the otherwise deductible interest on the Notes would be treated as non-deductible distributions. Although management believes it is unlikely that the IRS would be successful, if the Notes are not respected as debt, and the full amount of interest is not deductible for U.S. federal income tax purposes, management estimates that the additional taxes in 2004 would be approximately $460 or $0.043, per unit, on a diluted basis.

12. CUMULATIVE TRANSLATION ADJUSTMENT

The cumulative translation adjustment represents the effect of exchange rate variations on the translation of the Fund's net investment in Richards US, a self-sustaining foreign operation. The unrealized translation loss of $2,690 during the period ended December 31, 2004 resulted from the strengthening of the Canadian dollar against the U.S. dollar.

13. RELATED PARTY TRANSACTIONS

The Company entered into the following related party transactions during the period ended December 31, 2004, which were measured at the exchange amount:

	$
The Company leases four of its facilities from certain officers and other entities under their common control	**318**
The Company purchases product from Vision Plastics Inc. *[note 14]*	**7,020**

The amount due to certain officers of $684 as at December 31, 2004 is non-interest bearing and has no fixed terms of repayment.

14. JOINT VENTURE

The Fund owns a 50% interest in a joint venture, Vision Plastics Inc. Financial information relating to the joint venture before inter-company eliminations is as follows:

[expressed in thousands except for unit and per unit amounts]

	$
Balance sheet	
Current assets	**1,622**
Capital assets	**1,856**
Total assets	**3,478**
Liabilities	
Current liabilities	**621**
Long-term debt	**279**
Future income taxes	**102**
Total liabilities	**1,002**
Statement of income	
Revenue	**7,020**
Total expenses	**7,000**
Net income	**20**
Additional information	
Cash provided by operating activities	**172**
Cash used in investing activities	**177**
Cash used in financing activities	**146**

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

15. FINANCIAL INSTRUMENTS

Fair value

Cash and cash equivalents, accounts receivable, income taxes recoverable (payable), accounts payable and accrued liabilities, distributions payable to unitholders and dividends payable to exchangeable shareholders are all short-term in nature and as such, their carrying values approximate fair values.

A reasonable estimate of fair value could not be made for the amounts due to officers, as there are no fixed terms of repayment.

The fair value of short and long-term debt approximates the carrying values as this debt bears interest at rates comparable to current market rates.

The fair value of the interest rate swap contract represents an unrealized gain of approximately $237.

[expressed in thousands except for unit and per unit amounts]

Credit risk

Concentration of credit risk with respect to trade accounts receivable is limited due to the large number of customers and their geographical dispersion. During the period from April 7, 2004 to December 31, 2004 no customer represented 10% or more of the Fund's sales or accounts receivable balance. In the event of non-payment by the customers, management believes that the allowance for doubtful accounts is adequate to cover any likely losses.

Interest rate risk

The Fund is exposed to interest rate risk in the event of fluctuations in LIBOR and the bank's prime rate as the interest rates on the revolving 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 Fund has not accounted for its interest rate swap contracts as hedges in accordance with the provisions of AcG-13 "Hedging Relationships". As a result, fluctuations in the market value of the interest rate swap contracts are recorded in the consolidated financial statements from period to period.

Foreign exchange risk

The Fund is exposed to Cdn/US$ currency fluctuations on cross-border transactions and on translation of the net investment in, and earnings of, Richards US. A foreign currency standard rate agreement has been put in place at Cdn/US$0.73 to sell US$100 per month through September 30, 2005. The fair value of the foreign currency standard rate agreement as at December 31, 2004 represents an unrealized gain of $151.

A foreign exchange gain of $449 from operations has been recorded in the period.

16. CONSOLIDATED STATEMENT OF CASH FLOWS

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

	$
Accounts receivable	**1,575**
Inventory	**(2,013)**
Prepaid expenses	**21**
Accounts payable and accrued liabilities	**2,467**
Income taxes	**297**
	2,347

Interest paid and income taxes recovered for the period ended December 31, 2004 amounts to $1,057 and $206, respectively.

[expressed in thousands except for unit and per unit amounts]

Non-cash investing and financing activities

On April 7, 2004, the Fund acquired all the outstanding shares of Richards Packaging Inc. with $16,864 and $4,552 of the purchase price being settled by the issuance of 1,686,414 Units and 455,185 exchangeable shares, respectively, valued at $10 per Unit and $10 per share *[note 1]*.

During the period, the Fund acquired all the outstanding shares of Calgary Plastics Container Supply Ltd. with $695 of the purchase price being settled by the issuance of 69,500 exchangeable shares valued at $10 per share *[note 3]*.

17. SEGMENTED INFORMATION

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

	Canada $	**United States** $
Revenue	**69,879**	**43,439**
Capital assets and goodwill	**41,533**	**20,607**

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

Richards Packaging Income Fund

UNITHOLDER INFORMATION

Management Team

Gerry Glynn
Chief executive officer

David Prupas
President

Rocco Liscio
Chief financial officer

Howard Sandys
Vice president

Joe Teufel
Vice president

Corporate Information

Transfer agent and registrar

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Investor information

Annual information filing, the prospectus and the quarterly reports are available on SEDAR at www.sedar.com or on TSX at www.tsx.com .

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Toronto Stock Exchange listing

Symbol : RPI.UN

Annual meeting

Thursday, May 26th at 9:00 a.m.
The executive board room
TSX conference center
The exchange tower
130 King Street West
Toronto, Ontario