

2009 Annual Report

Richards Packaging Income Fund

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Good Things
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Packaging



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PACKAGING & CLEANING HOUSE



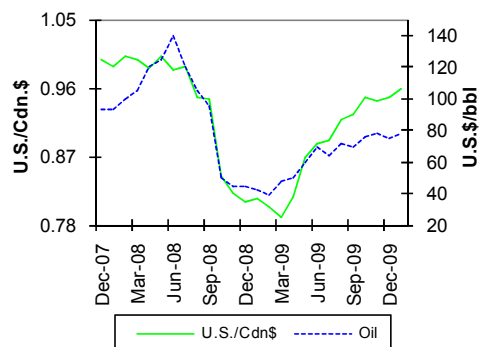
QUALITY DISCOUNT PACKAGING

Richards Packaging Income Fund

GLOBAL FINANCIAL CRISIS IMPACT

Financial Markets

- Global recession continued into 2009 – packaging down 10%
- Bounce back in commodities, most notably oil – FX and oil pricing diverged
- U.S./Cdn. exchange rate reset to 96¢ from 82¢
- Short term borrowing rates remained at all time lows of 1/2%
- Bank margining offsetting the rate drops leaving borrowing costs unchanged – improvement in leverage in Q4 drops margining by 1/2%



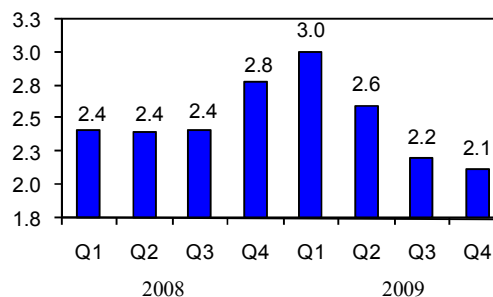
Distribution Policy

- “Tax fairness plan” 2011 impact negligible for most taxable Canadian individuals & adverse for non-taxable unitholders
- Current distribution rate reflects 2011 tax, further Cdn.\$ appreciation and higher interest rates
- Tax shields of \$4 mil. available for 2011⁴ – delay conversion decision to a corp. until end of 2012
- Payout ratio³ 85%
- Monthly distributions of 6.55¢ per Unit

(\$ millions)	2011 ⁴
Distributable cash flow	14.7
Increase in interest expense	-1.6
EBITDA F/X impact at 96c	-0.9
"Tax Fairness Plan"	-1.2
Future Distributable cash flow	11.0
Current distribution level	9.4
Payout Ratio	85%

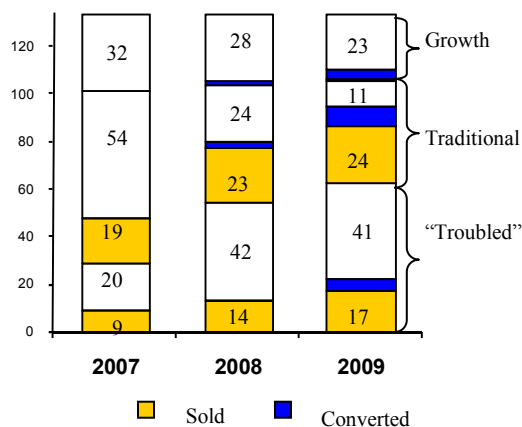
Debt to EBITDA¹

- Term debt payments of \$1mil. Q4/08 and \$3 mil. in Q2 & Q3/09 and \$1 mil. in Q4/09
- Revolving debt draw of \$2 mil. Q1/09 repaid by \$1 mil. in Q2 & Q3/09
- FX drop of 13¢ in Q4/08 and 2¢ in Q1/09 reversing by 7¢ in Q2/09 and 6¢ in Q3/09
- FX exposure removed by converting to Cdn\$



Business Trust Universe

- 13 conversions of trusts to common stocks – growth (2), traditional (6), troubled (5)
- 6 trusts sell to private equity or strategic buyers
- 13 succumb to adverse economic conditions and cut distributions (2008 – 30)
- 16 acquisitions completed mainly with debt (2008 – 25)
- 19 normal course issuer bids (2008 – 22)
- Yields strengthened to 10% (2008 – >15%)

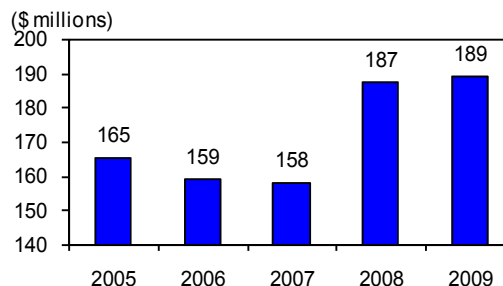


Richards Packaging Income Fund

PERFORMANCE SNAPSHOT

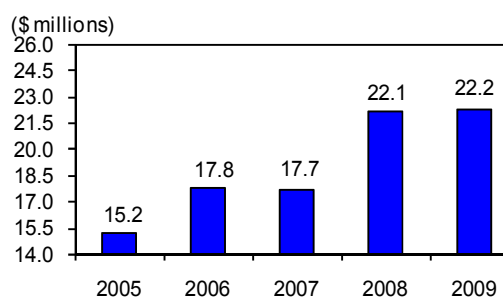
Revenue

- Organic contraction \$4.6 mil. – top 60 customers shrinking due to 6¢ appreciation of Cdn.\$
- Non-cash currency translation gain \$6.4 mil. at U.S./Cdn.88¢ (2008 – \$1.5 mil.)
- US growth 7% with additional 700 small customers – Canada contracted 10% mainly large customers
- 5% cosmetic and 3% closure increases; 3% wine and 2% plastic decreases



EBITDA¹

- EBITDA flat at 12% of sales
- Inventory \$2.3 mil. write-down in line with adverse economic climate (2008 – \$0.3 mil.)
- Profit improvement initiatives \$0.2 mil. staffing improvements (2008 – \$0.2 mil. reorganization of Toronto area facilities);
- No reorganization costs offsets FX
- Expansion capital impact flat at \$0.1 mil.



Cash Management

- Working capital decrease reflects:
 - FX \$1.7 mil. (2008 – \$4.9 mil. incr.)
 - inventory reduction \$1.6 mil.
- Repaid term debt by \$8 mil., including \$1 mil. in fourth quarter
- Debt converted July 2009 at U.S./Cdn. 92¢ – translation gain \$7 mil. (2008 – \$12 mil. loss); crystallized FX gain since inception \$2.5 mil.

(\$ millions)	Dec-06	Dec-07	Dec-08	Dec-09
Working capital ¹	25.6	31.5	35.2	32.0
Cash	1.9	0.1	0.2	2.1
Revolver	–	1.2	–	–
Acquisition	–	17.6	–	–
Term	34.6	29.4	61.9	47.4
Net Debt	32.7	48.1	61.7	45.3

¹ excludes short-term debt and current portion of long-term debt

Fourth Quarter Results

- Organic revenue growth of 6.8% as customers replenish inventory levels reduced in Q1
- Non-cash \$0.5 mil. FX loss due to lower net Richards Packaging US investment (2008 – \$0.3 mil. gain)
- No restructuring in 2009 (2008 – \$0.3 mil.)
- Gross profit increase offset by FX loss
- Distributions reset \$1.0 mil. lower

(\$ millions)	2007	2008	2009
Revenue	39.8	45.4	46.0
EBITDA ¹	4.9	5.1	5.1
	12.2%	11.3%	11.1%
Payout Ratio ³	93%	98%	74%
Debt Repayment	–	1.2	1.0
Share Buyback	0.2	–	0.3

Richards Packaging Income Fund

CEO'S REPORT TO UNITHOLDERS

December 31, 2009

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 2009 results mirrored 2008 with revenue growth of 1.0% and EBITDA¹ up \$0.1 million despite the recession and the packaging industry down 10%. We experienced a \$2 million contraction with our top 60 customers as the higher freight costs and Canadian dollar hampered their ability to compete. More than offsetting this setback was the success of our sales team in generating new small customers which resulted in \$4 million of additional sales from 700 new customers. EBITDA¹ as a percent of sales was at 11.7%, despite the additional \$2 million inventory write down and the \$0.5 million foreign exchange adjustment. Net income was \$13.8 million, or \$1.37 per Unit, up \$15.5 million from the same period in 2008 which mainly reflects non-cash foreign currency translation gain on our U.S. dollar denominated debt.

Performance rebounded in the fourth quarter with organic revenue growth of 6.8%, as our customers replenished inventories drawn down during the first quarter, and gross margin was a record at 18.2% of sales when compared with the same period in 2008. EBITDA for the fourth quarter reflected an increase in gross profit margin by 1.2% of sales, as a result in the improvement in our customer mix, which fully offset the impact of the foreign exchange adjustment.

Richards Packaging made payments of \$7.7 million on the term debt with funds diverted from distributions. The term debt was converted to Canadian dollars on July 31, 2009 at U.S./Cdn. 92¢ resulting in a further \$7.0 million reduction in the outstanding balance and since inception, the cumulative foreign exchange gain on conversion was \$2.5 million. As a result, the leverage ratio at year end has returned to a comfortable 2.1 times. We also repaid the \$2.0 million revolving debt drawn during the first quarter to invest in working capital. The \$2.0 million of cash on hand at year end should ensure no similar seasonal borrowing is required during the first quarter of 2010.⁴

Richards Packaging enters 2010 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 were all accretive and strong strategic fits and we are excited by the prospects of executing our strategic plan and growing the Richards Packaging family.

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

"Gerry Glynn"
Chief Executive Officer
Richards Packaging Inc.

March 5, 2010

Richards Packaging Income Fund

INDEPENDENT TRUSTEES' REPORT

December 31, 2009

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 34% of the Fund. Accordingly, our motivation and interests are aligned with the public unitholders. Overall, our goal as directors and officers is to add value to Richards Packaging by contributing our broad experience and expertise in directing a controlled growth-oriented enterprise.

The Fund paid monthly distributions of 9.35¢ per Unit for January and February and suspended distributions beginning in March until a leverage ratio of less than 2.5:1 was achieved. During the second and third quarter surplus distributable cash was redeployed to pay \$7 million of bank debt. Having achieved our target debt leverage, we were pleased to announce a return to monthly distributions at the rate of 6.55¢ per Unit beginning with the month of October. 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.

On November 16, 2009, the Fund reinstated a normal course issuer bid to purchase up to 202,000 Units prior to November 15, 2010. During the fourth quarter, 43,006 Units were purchased at an average price of \$7 per Unit.

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

"Don Wright"
Chairman

"Wayne McLeod"
Chair - audit committee

"Rami Younes"
Trustee

"Derek Ridout"
Chair – compensation &
corporate governance committee

March 5, 2010

Richards Packaging Income Fund

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

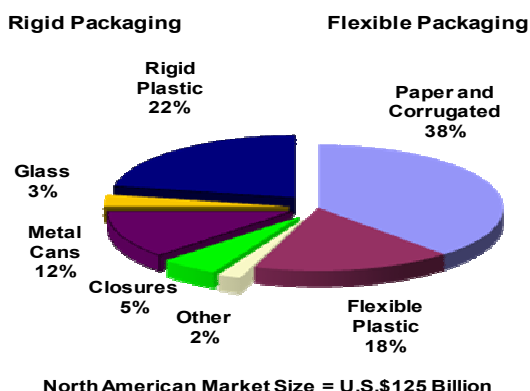
March 5, 2010

This management's discussion and analysis of Richards Packaging Income Fund ("MD&A") for the 2009 year should be read in conjunction with the attached audited consolidated financial statements for the year ended December 31, 2009, the quarterly reports for the periods ended March 31, June 30 and September 30, 2009 and the Annual Information Form dated March 5, 2010. Results are reported in Canadian dollars and have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") on a consistent basis with the annual financial statements.

North American Packaging Industry

Packaging is pervasive, as almost all products are delivered in some form of packaging. The properties of packaging fulfils not only the practical, transportability, protection functions and shelf life, but also serves to differentiate products and communicate branding messages such as quality, safety and consumer satisfaction. The latest ergonomically complex packaging components' design reflects significant investment in market research and product development. To meet the needs of this changing marketplace, the packaging industry has segmented into different product types outlined in the adjacent chart. Market contraction in 2009 was 10% with beverage, restaurant and fast-food packaging particularly hard hit.

Industry Segmentation by Product Type



As large product marketers have consolidated, packaging companies have embarked on a parallel industry consolidation strategy to meet their needs. Concentration is high in the glass, metal and paper segments with 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 2009 there were over 165 acquisitions in the global packaging industry, down 33% over 2008, with an average value of U.S.\$246 million at a median multiple of 6.1 times EBITDA¹ (2008 – 6.9). During 2009, the top 20 companies have spent \$2.4 billion 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 2009, oil and natural gas prices were extremely volatile testing new lows before recovering in line with long term values. Resin prices were more driven by supply and demand with low PET inventory levels providing stable prices while high HDPE inventory levels resulted in more volatility. Financing structures in place at most packaging companies are similar to that of an income trust, with significant use of debt priced anywhere from 7% to 13% and free cash flow as defined within the industry at 5%, which ensures that a disciplined approach to passing cost increases through will remain in place. Clear evidence is that for the top 20 companies, their EBITDA as defined within the industry as a percent of sales has remained at a healthy 13% overall for 2009.

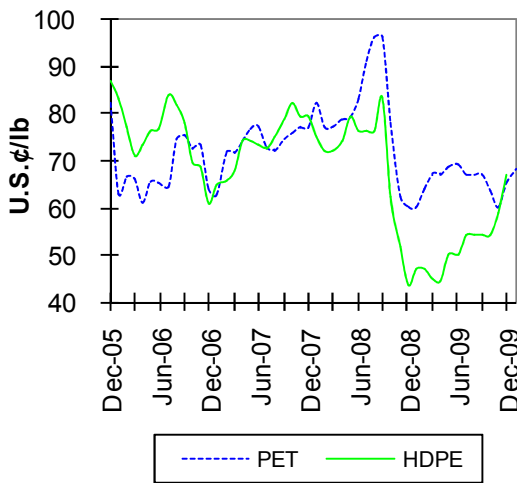
Richards Packaging Income Fund

MANAGEMENT'S DISCUSSION AND ANALYSIS

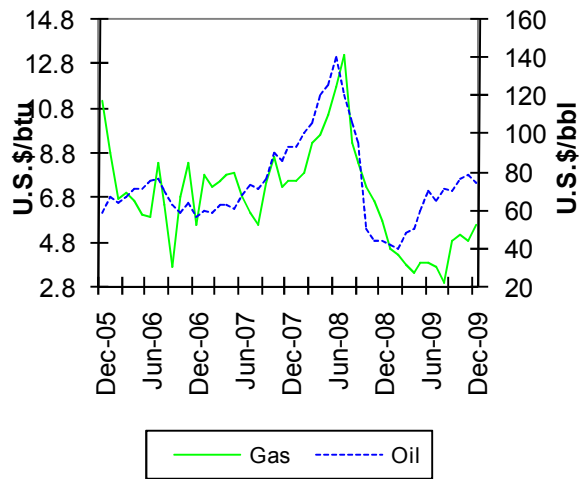
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March 5, 2010

Resin Prices



Oil & Natural Gas Prices



PET – Polyethylene terephthalate; HDPE – High Density Polyethylene

Description of the Business and Fund Profile

Within the North American Packaging Industry a \$3 billion distributor-based market for rigid packaging exists to serve regional small- to medium-sized premium product marketers. Approximately 50 distributors provide marketing and package design expertise, source multiple packaging components from around the world, aggregate orders ensuring access to large manufacturers and provide inventory and logistics support to deliver a complete packaging solution. Concentration in this segment is low with the top five companies controlling approximately 40% of their market. Richards Packaging Inc. and its subsidiaries (“Richards Packaging”) is the largest packaging distributor in Canada and the third largest in North America. Other distributors consist mainly of local or regional family-owned companies who specialize to meet the unique needs of their customers.

Richards Packaging serves a wide customer base that is comprised of approximately 10,000 regional food, beverage, cosmetic, specialty chemical, pharmaceutical and other companies. The primary source of revenue is from the distribution of over 5,000 different types of packaging containers and related components sourced from over 600 suppliers and its three dedicated manufacturing facilities. Sales from these manufacturing facilities represent 14% of the total revenues of Richards Packaging. In addition to providing its customers with a wide range of packaging solutions, Richards Packaging provides design and development services and comprehensive logistics management through 16 sales offices and one agency location.

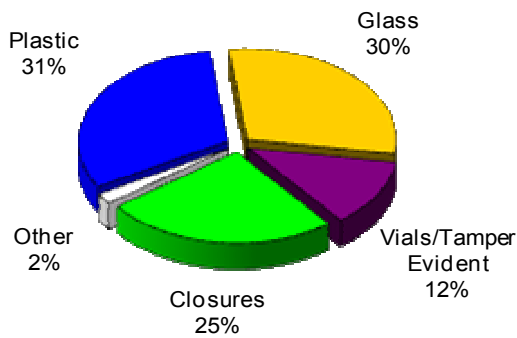
Richards Packaging Income Fund

MANAGEMENT'S DISCUSSION AND ANALYSIS

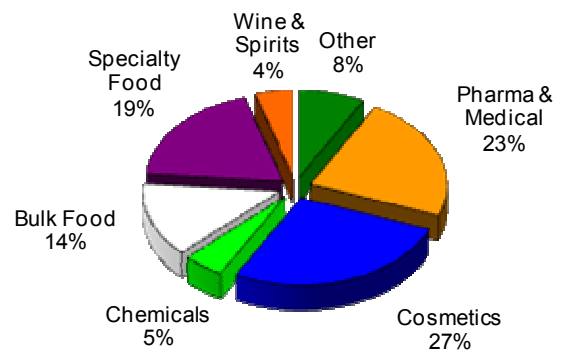
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March 5, 2010

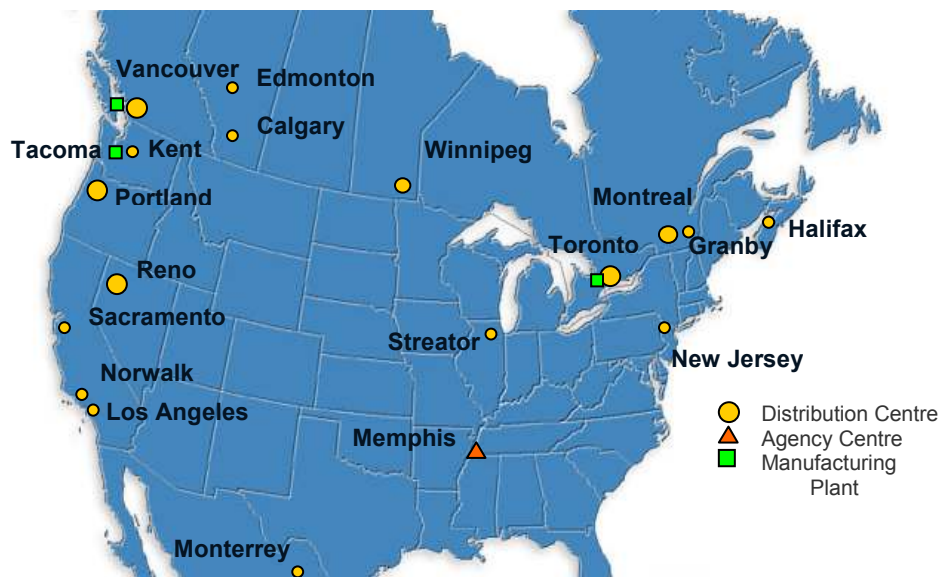
Revenue by Product



Revenue by End User



Richards Packaging Locations



Richards Packaging Income Fund

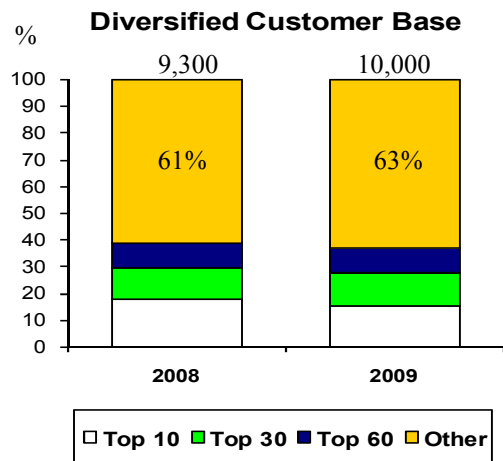
MANAGEMENT'S DISCUSSION AND ANALYSIS

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March 5, 2010

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 2009, management continued to strategically reposition Richards Packaging in the marketplace to optimize the concentration of large customers and focus on customers with the highest value for the unique product offering and services we provide. The concentration of our top 60 customers was reduced in 2009 by \$2 million which was more than offset by the \$4 million growth in small customers. In addition, exposure to the US marketplace increased by \$12 million to take advantage of higher growth opportunities relative to the Canadian marketplace as customers in Canada continue to be hindered by the strong Canadian dollar and high freight costs.

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. The ownership is currently at 85% due to issuance of shares exchangeable into Units in order to facilitate the financing of two acquisitions and purchases under our normal course issuer bid.

Impact of Changes in Financial Markets

The global economic downturn that began in late 2008 continued in 2009 and impacted the foreign exchange and credit markets and the economic climate.

Foreign Exchange

During the fourth quarter of 2008, the exchange rate decreased dramatically by U.S./Cdn. 13¢. Since Richards Packaging's debt was denominated in US dollars (primarily to match the interest expense with cash flows from Richards Packaging US), this exchange rate decrease caused an increase of \$8.6 million on a Cdn. equivalent basis and the leverage ratio to grow by 0.4x up to 2.8x debt to EBITDA¹ and together with the degradation in the Unit price, prohibited any further growth through acquisition. As a result, the Fund immediately shifted away from its acquisition strategy and normal course issuer bid and Richards Packaging focused on deploying excess cash flow to reducing debt

Richards Packaging Income Fund

MANAGEMENT'S DISCUSSION AND ANALYSIS

(expressed in thousands, except where otherwise indicated
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March 5, 2010

beginning with a U.S. \$1 million repayment on November 30, 2008. By the third quarter of 2009, exchange rates had fully recovered the 2008 fourth quarter drop. This led to the Fund's decision to convert the debt into Cdn.\$ denomination and revert to its initial strategy.

Credit Markets and Interest rates

With the unraveling of the sub-prime lending market came the eventual tightening in credit markets in mid-2008 at a time when the acquisition debt facility was up for renewal. This tightening, although in the early stages of the eventual financial market meltdown, led to a 0.75% increase in borrowing costs. This would later increase 1.0% as we were required to reset our leverage covenant due to the foreign exchange induced increase in the leverage ratio. The increases in interest rates have been fully mitigated by dramatic declines in short-term interest rates. During the fourth quarter of 2009, the leverage ratio improvement resulted in 0.5% reduction in borrowing costs.

Economic Recession

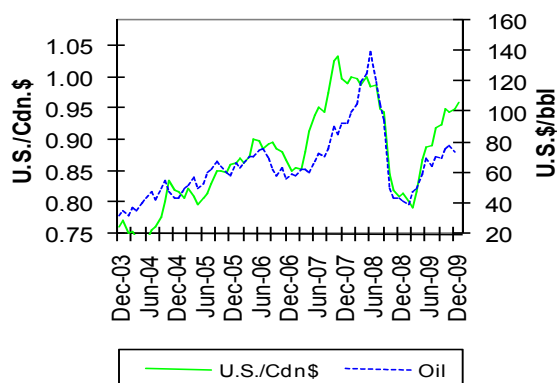
During the fourth quarter of 2008 and first half of 2009, the gross domestic product in the United States and Canada dropped by a maximum of 6.1% and 7.3%, respectively. During the fourth quarter of 2009, both economies bounced back with growth of 5.7% and 5.0%, respectively. Overall for 2009, this slowed the organic growth rate in our US operations to 7.0% and led to a 10.0% reduction in our Canadian operations.

Highlights and Selected Financial Information

Highlights of the overall performance for the 2009 year include:

- Revenue growth of 1.0%, mainly due to the foreign currency translation of Richards Packaging US,
- EBITDA¹ flat representing 11.7% of sales,
- Interest expense reduced by \$0.5 million caused by repayments and lower short-term rates,
- Net income up \$15.5 million due primarily to gains on financial instruments,
- Working capital decrease of \$1.5 million reflects the reduction of inventory offset by reduced payables,
- Term debt repaid by \$7.7 million and converted to Cdn.\$ at U.S./Cdn. 92¢ resulting in a translation gain of \$7.0 million – leverage ratio drop by 0.7x to 2.1x debt to EBITDA,
- Purchased 43,006 Units (@\$6.98/Unit) under our Normal Course Issuer Bid,
- Reinstated monthly distributions of 6.55¢ per Unit to yield an 11.0% return (@\$7.15/Unit – Dec 31st),
- Maintained distributable cash flow² of \$1.24 per Unit. At the current level of monthly distributions of 6.55¢ per Unit, the payout ratio³ was 74% for the fourth quarter.

Oil & Foreign Exchange



Richards Packaging Income Fund

MANAGEMENT'S DISCUSSION AND ANALYSIS

(expressed in thousands, except where otherwise indicated
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March 5, 2010

The MD&A covers the three months ended December 31, 2009, the 12 months ended December 31, 2009 and 2008 (generally referred to in this MD&A as the "fourth quarter", the "2009 year" and the "2008 year" respectively). The following table sets out selected consolidated financial information:

	Qtr. 1		Qtr. 2		Qtr. 3		Qtr. 4		12 months		
	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008	2007
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Income Statement Data:											
Revenue.....	46,417	44,541	49,158	48,899	47,529	48,476	46,008	45,400	189,112	187,316	158,008
EBITDA ¹	5,033	5,458	6,160	6,034	5,916	5,488	5,084	5,116	22,193	22,096	17,674
<i>Diluted per Unit</i>	<i>42.3¢</i>	<i>45.4¢</i>	<i>51.7¢</i>	<i>50.4¢</i>	<i>49.7¢</i>	<i>46.1¢</i>	<i>42.8¢</i>	<i>43.0¢</i>	<i>\$1.86</i>	<i>\$1.85</i>	<i>\$1.61</i>
Net income (loss)....	339	277	6,561	3,055	5,400	534	1,540	(5,495)	13,840	(1,629)	11,230
<i>Diluted per Unit</i>	<i>3.4¢</i>	<i>2.7¢</i>	<i>64.8¢</i>	<i>30.0¢</i>	<i>53.4¢</i>	<i>5.3¢</i>	<i>15.2¢</i>	<i>(54.0¢)</i>	<i>\$1.37</i>	<i>(\$0.16)</i>	<i>\$1.08</i>
Balance Sheet Data:											
Total assets.....	188,446	183,501	179,428	179,875	170,266	180,035	167,978	189,254	167,978	189,254	179,836
Bank debt.....	65,754	53,291	56,302	53,472	48,245	54,653	47,402	61,916	47,402	61,916	48,230
Cash Flow Statement Data:											
Distributions ^{a)}	2,277	3,370	—	3,365	—	3,357	2,348	3,394	4,625	13,482	12,328
<i>Diluted per Unit</i>	<i>19.1¢</i>	<i>28.1¢</i>	<i>—</i>	<i>28.1¢</i>	<i>—</i>	<i>28.1¢</i>	<i>19.8¢</i>	<i>28.4¢</i>	<i>\$0.39</i>	<i>\$1.13</i>	<i>\$1.12</i>
Payout ratio ³	71%	90%	—	82%	—	98%	74%	98%	31%	91%	96%

a) presented on a declared basis.

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 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, losses (gains) on financial instruments and future 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's payout ratio of 31% for the 2009 year reflects a temporary suspension of distributions beginning March 2009 and a reinstatement in October 2009 at the lower rate of 6.55¢ per Unit (2008 – 9.35¢). Surplus distributable cash was utilized to pay down term debt.

Review of Operations

Richards Packaging's operations were approximately one-half (2008 – one-half) in Canada and one-half (2008 – one-half) in the United States. Approximately one-third of Richards Packaging's sales are concentrated in Toronto, Montreal and Vancouver and one-third in Los Angeles, Seattle, Reno and Portland.

Revenue increased by \$0.6 million, or 1.3%, for the fourth quarter, and by \$1.8 million, or 1.0%, for the 2009 year (2008 – \$29.3 million, or 18.5%), from the same periods in 2008, respectively. During the fourth quarter, revenue increased \$0.6 million on organic growth of \$3.1 million, or 6.8% (2008 – \$1.7 million, or 4.3%) offset by the translation impact of Richards Packaging US with the Canadian dollar strengthening 12¢ to U.S./Cdn. 95¢ of \$2.5

Richards Packaging Income Fund

MANAGEMENT'S DISCUSSION AND ANALYSIS

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million (2008 – \$3.9 million increase). For the 2009 year, the translation impact of Richards Packaging US of \$6.4 million due to a U.S./Cdn. 6.1¢ weakening (2008 – \$1.5 million) was offset by organic revenue contraction of \$4.6 million or 2.5% (2008 – \$27.8 million increase).

	Qtr. 1		Qtr. 2		Qtr. 3		Qtr. 4		12 months		
	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008	2007
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Revenue	46,417	44,541	49,158	48,899	47,529	48,476	46,008	45,400	189,112	187,316	158,008
Cost	38,698	36,530	40,457	40,318	38,996	40,216	37,653	37,689	155,804	154,753	130,930
Gross profit.....	7,719	8,011	8,701	8,581	8,533	8,260	8,355	7,711	33,308	32,563	27,078
	<i>16.6%</i>	<i>18.0%</i>	<i>17.7%</i>	<i>17.5%</i>	<i>17.9%</i>	<i>17.0%</i>	<i>18.2%</i>	<i>17.0%</i>	<i>17.6%</i>	<i>17.4%</i>	<i>17.1%</i>
Expenses.....	2,615	2,509	2,692	2,505	2,645	2,479	2,711	2,536	10,663	10,029	9,442
Reorganization ^{a)}	—	—	—	—	—	253	—	293	—	546	253
FX ^{b)}	71	44	(151)	42	(28)	40	560	(234)	452	(108)	(291)
EBITDA ¹	5,033	5,458	6,160	6,034	5,916	5,488	5,084	5,116	22,193	22,096	17,674
	<i>10.8%</i>	<i>12.3%</i>	<i>12.5%</i>	<i>12.3%</i>	<i>12.4%</i>	<i>11.3%</i>	<i>11.1%</i>	<i>11.3%</i>	<i>11.7%</i>	<i>11.8%</i>	<i>11.2%</i>
Amortization.....	2,062	2,144	2,068	2,119	2,053	2,058	2,201	2,257	8,384	8,578	7,959
Patent defense costs....	72	115	33	60	9	23	31	109	145	307	130
Interest.....	1,306	1,020	1,124	1,019	765	1,136	779	1,323	3,974	4,498	3,221
R/UFI ^{b)}	1,528	2,476	(5,390)	(778)	(3,800)	1,950	—	8,948	(7,662)	12,596	(4,319)
Income tax.....	(334)	(622)	601	59	531	(302)	259	(1,096)	1,057	(1,961)	(1,155)
NCI ^{b)}	60	48	1,163	500	958	89	274	(930)	2,455	(293)	608
Net Income (loss)	339	277	6,561	3,055	5,400	534	1,540	(5,495)	13,840	(1,629)	11,230

a) represents one time cost of \$251 and expenses of \$295 to move the Toronto facilities in 2008 and the US financial reorganization in 2007.

b) FX=foreign currency losses/(gains) from operations and a decrease in the net investment in Richards Packaging US, R/UFI= losses/(gains) on financial instruments, NCI=non-controlling interests.

Cost of products sold was consistent for the fourth quarter and increased by \$1.1 million for the 2009 year, or 0.7% (2008 – \$23.8 million, or 18.2%), from the same periods in 2008, respectively and although in line with the changes in revenue for the same periods, also reflects the impact of \$2.3 million of inventory write-downs for the 2009 year. During the fourth quarter and for the 2009 year, gross profit margins were up 1.2% and 0.2% (2008 – 0.3%) from the same periods in 2008, respectively, primarily due to the continued shift into smaller customers and higher margin products. 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.

General and administrative expenses including reorganization costs decreased \$0.1 million, or 0.3% of sales for the fourth quarter and increased \$0.1 million for the 2009 year (2008 – \$0.9 million), over the same periods in 2008, respectively mainly due to foreign exchange offset by the absence of reorganization costs incurred in 2008 to move the Toronto facilities.

The foreign exchange loss/(gain) from operations results from exchange rate changes applied to our U.S. denominated working capital position within our Canadian operations and a decrease in the net investment in Richards Packaging

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US. The decrease in the net investment in Richards Packaging US resulted in a foreign exchange loss of \$0.5 million for the fourth quarter and the 2009 year (2008 – \$0.3 million gain).

EBITDA¹ was flat for the fourth quarter and increased by \$0.1 million for the 2009 year (2008 – \$4.4 million increase), over the same periods in 2008, respectively. During the 2009 year, the impact of the U.S./Cdn. 6.1¢ weakening resulted in an increase to EBITDA of \$1.0 million. As a percent of sales, EBITDA was at 11.1% for the fourth quarter and 11.7% for the 2009 year (2008 – 11.8%). Changes were due to the factors outlined above.

Other expenses comprise amortization, including debt accretion, and interest which were lower due to the reduction in debt accretion and overall debt; and losses (gains) on financial instruments comprised of foreign exchange gains on translation of U.S. denominated debt, which reflects the movement in the U.S./Cdn.\$ exchange rate, and the mark-to-market gain or loss on the fixed interest rate swap. The only cash item in other expenses is the interest paid by Richards Packaging.

Amortization of \$2.2 million for the fourth quarter was mainly comprised of \$1.6 million for intangible assets, which represents a charge for customer relationships and patents. The remaining amortization amounts consisted of debt accretion of \$0.2 million and capital asset amortization of \$0.4 million per quarter, which annualized, is approximately twice Richards Packaging's annual maintenance capital expenditure spending requirement.

Interest expense for the fourth quarter and the 2009 year decreased by \$0.5 million from the same periods in 2008. During the fourth quarter, interest expense decreased with the absence of the fixed interest rate swap (\$0.2 million), principal repayments and floating interest rate reductions of 2% (\$0.3 million). For the 2009 year, interest expense decreased due to principal repayments and floating rate reductions.

Losses (gains) on financial instruments are comprised of foreign currency translation of debt and mark-to-market adjustments on the fixed interest rate swap. For the 2009 year, foreign currency gains were \$7.0 million (2008 - \$12.2 million loss) and together with the gain on the fixed interest rate swap, net gains were \$7.7 million. The U.S.\$47.0 million term loan outstanding on July 31, 2009 was converted in CDN\$ at a rate of 92¢ resulting in a cumulative foreign currency gain of \$2.5 million. This conversion now removes the volatility associated with foreign currency translation gains and losses on the debt. Also included is a \$0.7 million reversal of losses on the mark-to-market of the fixed interest rate swap which matured on June 5, 2009. Since Richards Packaging had borrowed mainly in U.S. dollars to match the U.S. dollar interest obligations with the net cash it receives from its subsidiaries in the US prior to conversion, this natural hedge no longer exists.

Current income taxes reflect the tax deductions inherent in distributions to unitholders. For the 2009 year, current income taxes were \$2.8 million (2008 – \$2.0 million) representing tax leakage predominately for the Richards Packaging US. Future income tax recoveries for the 2009 year were \$1.7 million (2008 – \$3.9 million) representing temporary differences due primarily to the reversal of accounting amortization. Net future tax assets available to shield income taxes are \$3.6 million, which include a loss carry forward of \$3.7 million and \$0.3 million of working capital offset by \$0.4 million of capital assets.

Net income for the fourth quarter was \$1.5 million, and for the 2009 year was \$13.8 million, which represented 15.2¢ and \$1.37 per Unit on a diluted basis, respectively. A time-weighted average total of 10,111,490 Units and 1,791,962 exchangeable shares, exchangeable into Units on a one-for-one basis, were outstanding in 2009.

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Distributable Cash Flow

	Qtr. 1		Qtr. 2		Qtr. 3		Qtr. 4		12 months		
	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008	2007
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Cash provided by											
operating activities	1,982	1,540	4,363	3,432	4,622	5,830	5,869	5,742	16,836	16,544	9,432
Working capital changes	1,243	2,241	(189)	848	(164)	(2,275)	(2,418)	(2,038)	(1,528)	(1,224)	4,054
Non-cash charges	1,808	1,677	1,986	1,754	1,458	2,186	1,633	1,705	6,885	7,322	4,188
.....	5,033	5,458	6,160	6,034	5,916	5,741	5,084	5,409	22,193	22,642	17,674
Reorganization costs ^{a)}	—	—	—	—	—	253	—	293	—	546	(253)
Interest.....	1,306	1,020	1,124	1,019	765	1,136	779	1,323	3,974	4,498	3,221
Cash income taxes.....	430	542	829	675	816	774	691	(20)	2,766	1,971	837
Maintenance capital	68	136	136	213	105	137	437	177	746	663	975
Reorganization capital ^{b)}	—	—	—	—	—	—	—	154	—	154	—
Loan payments	—	10	—	10	—	7	—	—	—	—	40
Distributable cash flow²	3,229	3,750	4,071	4,117	4,230	3,434	3,177	3,482	14,707	14,783	12,854
<i>Diluted per Unit</i>	<i>27.1¢</i>	<i>31.2¢</i>	<i>34.2¢</i>	<i>34.4¢</i>	<i>35.6¢</i>	<i>28.8¢</i>	<i>26.8¢</i>	<i>29.2¢</i>	<i>\$1.24</i>	<i>\$1.24</i>	<i>\$1.17</i>
Distributions	2,277	3,370	—	3,361	—	3,357	2,348	3,394	4,625	13,482	12,328
<i>Diluted per Unit</i>	<i>19.1¢</i>	<i>28.1¢</i>	<i>—</i>	<i>28.1¢</i>	<i>—</i>	<i>28.1¢</i>	<i>19.8¢</i>	<i>28.5¢</i>	<i>\$0.39</i>	<i>\$1.13</i>	<i>\$1.12</i>
Payout ratio ³	71%	90%	—	82%	—	98%	74%	98%	31%	91%	96%
Cost of Units purchased	—	257	—	379	—	382	309	—	309	1,018	246
Units outstanding on a											
diluted basis	11,908	12,015	11,908	11,971	11,908	11,914	11,889	11,908	11,903	11,952	10,990

a) represents one time cost of \$251 and expenses of \$295 to move the Toronto facilities in 2008 and the US financial reorganization in 2007.

b) represents expenditures associated with leaseholds on the new Toronto and the Portland facilities.

The distributable cash flow² definition excludes changes in working capital and capital expenditures for expansion of the business, as they are necessary to drive organic growth and are expected to be financed by a \$7.0 million revolving facility available to Richards Packaging (nil drawn; 2008 – nil drawn).

Distributable cash flow² for the fourth quarter at \$3.2 million decreased \$0.3 million in comparison to the same period in 2008 as lower interest was more than offset with higher maintenance capital including computer systems software upgrades and income taxes due to growth in Richards Packaging US. Maintenance capital expenditures were consistent with management's annual target of \$0.8 million.

The monthly distribution of 9.35¢ per Unit, suspended in March of the 2009 year and recommenced in October at 6.55¢ per Unit, represents an annual yield of 11.0% on a \$7.15 price per Unit at December 31, 2009 and a payout ratio³ of 31% (2008 – 91%). Based upon the 2009 year, 99.4% of the distributions will represent interest on the subordinated note held by the Fund and 0.6% will be treated as a return of capital.

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Liquidity and Financing

Cash flows from operating activities

Cash flows from operating activities increased \$0.1 million for the fourth quarter and \$0.3 million for the 2009 year, over the same periods in 2008. The increases were due primarily to higher cash flows from a larger decrease in working capital over the same period in 2008 driven by the reduction of inventory net of the reduction in payables.

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 2009 year were \$5.0 million with an additional \$0.8 million declared for December, which was paid January 14th.

Normal Course Issuer Bid

On November 16, 2009, the Fund initiated a normal course issuer bid to purchase up to 202,000 Units prior to November 15, 2010. During the 2009 year, 43,006 Units (2008 – 116,305) were purchased at an average price of \$6.98 (2008 – \$8.75) per Unit.

Cash income taxes

The cash income tax expense for the 2009 year was \$2.8 million (2008 – \$2.0 million) predominately made up of current income tax for the Richards Packaging US and increased \$0.8 million due to organic growth. The loss carry forwards in Richards Canada ensure that income tax leakage will be limited to Richards Packaging US until the new tax imposed upon publicly traded income trusts takes effect in 2011⁴.

Capital expenditures

Capital expenditures for the 2009 year were \$1.5 million (2008 – \$2.0 million), of which \$0.8 million (2008 – \$1.2 million) was on account of expansion capital and \$0.7 million on account of maintenance capital (2008 – \$0.8 million). Expenditures classified as maintenance capital are mainly comprised of refurbishment of moulds for replacement packaging driven by customer marketing programs along with computer systems software upgrades. Expansion capital expenditures were mainly incurred on new equipment and moulds for new customer programs.

Financing activities and instruments

Richards Packaging's credit facilities include a \$47.7 million term loan (2008 – U.S.\$51 million) with repayment on June 3, 2011 and up to \$7.0 million in revolving debt to fund working capital expansion. The term loan facility bears interest at BA's plus a premium of 3.0% to 3.75% (2008 – 3.0% to 3.75%) or at the prime rate plus a premium of 2.0% to 2.75% (2008 – 2.0% to 2.75%). The revolving credit facility bears interest at the prime rate plus a premium of 2.50% to 3.25% (2008 – 2.0% to 2.75%) and was renewed on May 8, 2009 for an additional year, maturing on June 2, 2010. During the 2009 year, \$7.7 million of long-term debt was repaid. During the 2008 year, Richards Packaging had available to it an acquisition facility which was cancelled on December 10, 2008.

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The credit facilities are subject to a number of covenants including the leverage ratio which was to maintain debt less than 3.25 times the trailing twelve months EBITDA¹ until June 30, 2009, and was reduced to 2.75 times as of September 30, 2009. As at December 31, 2009, our proforma leverage ratio was 2.13, down from a high of 3.00 as at March 31, 2009. To ensure we achieved our target of 2.50 times leverage ratio, distributions were temporarily suspended beginning in March 2009. On July 31, 2009, Richards Packaging converted the U.S. denominated term debt at U.S./Cdn. 92¢ resulting in a \$2.5 million currency translation gain. U.S. dollar denominated interest provided an effective match with the net cash received from Richards Packaging US. Combined with cash flow from operations, management believes that adequate financing will be available for the foreseeable future⁴.

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

Richards Packaging had entered into an interest rate swap contracts to June 5, 2009 on a notional principal amount equal to U.S.\$30,000 of term debt outstanding. The mark-to-market valuation of the swap contracts during the 2009 year gave rise to a gain of \$659 (2008 – \$354 loss).

Commitments and contractual obligations

	Total	< 1 year	1-3 years	4-5 years	Thereafter
	\$	\$	\$	\$	\$
Bank debt	47,719	—	47,719	—	—
Due to previous shareholder	825	825	—	—	—
Patents and trademarks	400	400	—	—	—
Annual bonus plans	803	724	79	—	—
Computer systems software	500	500	—	—	—
Operating leases.....	22,654	3,583	6,902	5,656	6,513
	72,901	6,032	54,700	5,656	6,513

A competitor has filed an action against Richards Packaging to establish that a product they launched in July 2006 does not infringe our Dispill patent and trademark. The patent and trademark expenditures above reflect management's estimate of ongoing legal costs to defend this action. If their action fails, there could be a positive effect on profitability in the future.

Outlook⁴

Management believes that the performance of Richards Packaging is on track to meet ongoing requirements for working capital, capital expenditures and to sustain monthly distributions to unitholders at the newly established level through 2011.

Revenue growth for the fourth quarter was above the long term industry average of 1-3% however, given the current economic climate, management expects Richards Packaging's organic growth rate to be more in line with the industry average. The impact of exchange translation will now reverse to reduce revenue with the strengthened U.S./Cdn.\$

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exchange rates. The impact for the fourth quarter is expected to continue throughout 2010 to an estimated \$3 million in each of the first and second quarters of 2010 based on exchange rates at U.S./Cdn. 96¢.

EBITDA¹ for the fourth quarter was \$5.1 million, and \$22.2 million for the 2009 year, and continues to track at levels exceeding 11% of revenue. The foreign exchange loss from operations is not expected to repeat at current exchanges rates. The impact of the revenue loss from translation is expected to impact 2010 by \$0.4 million in each of the first and second quarter.

The cash income tax expense is expected to be \$2.5 million in 2010 due to tax leakage from the Richards Packaging US offset by the further reduction in EBITDA outlined above. Based upon Richards Canada's current tax profile we expect to have approximately \$4 million of loss carry forwards which will partially shield taxes beginning in 2011. However, in 2011 the new 28.25% tax on distributions, net of return of capital, will take effect.

Maintenance capital will continue to be funded by cash flow from operations and is expected to grow in 2010. However, we are committing to an additional \$0.5 million for computer systems software to bring Richards Packaging US up to the same standard as Richards Canada. 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.

Cash on the balance sheet of \$2 million at year end will be deployed to fund seasonal working capital requirements and surplus distributable cash is expected to be deployed to pay down debt, purchase units 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 of Richards Packaging including: sustainability of customer and supplier relationships, financial stability of customers, lack of written customer and supplier agreements, competition from other packaging companies, 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 2009 Annual Information Form dated March 5, 2010.

Liquidity Risk

Richards Packaging's 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 its control. These factors might inhibit Richards Packaging from refinancing the indebtedness at all, or on favourable terms. In addition, the credit facilities contain 1) restrictive covenants that limit the discretion of management with respect to certain business matters and 2) financial covenants that require Richards Packaging to meet certain financial ratios and financial condition tests. 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 indebtedness under the

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credit facilities were to be accelerated, there can be no assurance that Richards Packaging's assets would be sufficient to repay in full that indebtedness. Richards Packaging's approach is to ensure that it will have sufficient liquidity to meet its liabilities when due. Cash levels are monitored daily to ensure sufficient continuity of funding.

Income taxes

During 2007, the Income Tax Act was amended to change the manner in which most publicly traded income trusts such as the Fund and the distributions from such trusts are taxed. Generally, the new rules apply an entity level tax on income earned by the trust at a rate approximately equal to the tax rate applicable to income earned by a Canadian public corporation, and treat the distributions of such income received by unitholders as taxable dividends received from a Canadian corporation. The new rules will be effective in 2011 unless the Fund were to issue Units in excess of \$50 million per year at which point the tax would be immediately effective.

Richards Packaging's capital structure involves commercially reasonable intercompany financing generating interest expense, which serves to reduce income and therefore income taxes payable in the United States. Management has taken steps to ensure that these financings are commercially reasonable, however there can be no assurance that the Internal Revenue Service will not challenge the tax filing position taken by Richards Packaging US, in which case some or all of the otherwise deductible interest would be treated as non-deductible distributions.

Transactions with Related Parties

Richards Packaging leased two of its facilities in 2009 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 5, 2010, the Fund had 10,048,080 Units and Holdings had 1,775,033 exchangeable shares outstanding, respectively. See notes 9 and 10 of the attached consolidated financial statements for further discussion on the terms of the Units and exchangeable shares.

Critical Accounting Estimates

Preparation of the consolidated financial statements in conformity with Canadian generally accepted accounting practices requires management to make estimates and assumptions which affect the reported, and disclosure of contingent, amounts for assets and liabilities as at December 31, 2009 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, 2009 is sufficient to cover risks inherent in outstanding receivables.

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Inventory obsolescence

Richards Packaging 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 expanded its scope of analysis which resulted in a \$2.3 million recognition of expense through inventory write down for the 2009 year (2008 – \$0.3 million). Based upon this review, management believes the obsolescence provision is adequate to cover risks inherent in inventory on hand as at December 31, 2009.

Intangible assets

Richards Packaging has recognized intangible assets in connection with various acquisitions valued at \$8.6 million as of December 31, 2009 pertaining to the future customer relationships that are not under long-term contract. The basis of valuation assumed that the margin percent would remain constant and the duration of these relationships would be impacted by a retention rate of approximately 90% per year. The customer relationship intangible and associated \$3.4 million future income tax liability as at December 31, 2009 will be amortized to income over 15 years from the date of acquisition. In addition, trademark intangible assets of \$3.1 million and an associated \$1.2 million future income tax liability have been recorded. Although previously recognized patent and customer relationship intangible assets affect net income, they do not impact distributable cash flow².

Goodwill

Goodwill represents the excess purchase price of acquired businesses over the estimated fair value of the net assets acquired. Goodwill is not amortized but is reviewed for impairment annually or more frequently if impairment indicators arise. Although the Unit price recovered to \$7.15 as at December 31, 2009 (2008 - \$5.90), 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 2% per annum respectively. Overall the carrying value of goodwill continues to be supported by the fair value of the Fund.

Change in Accounting Policies

Effective January 1, 2009 the Canadian Institute of Chartered Accountants Handbook Section 3064 *Goodwill and Intangible Assets* was adopted. In accordance with Section 3064, legal defense costs incurred to defend a patent infringement case which were previously capitalized and amortized over the patent's remaining useful life are now expensed in the period they are incurred and certain computer systems software formerly included in capital assets is now classified as intangible assets. For the 2008 year, the impact was to increase net loss by \$147 and basic and diluted loss per Unit by 0.1¢ as a result of patent defense costs of \$307 expensed, intangible asset amortization decreased by \$72, recovery of future income taxes increased by \$63 and non-controlling interests increased by \$25. In addition, amortization of intangible assets increased and capital assets decreased by \$276 as a result of computer systems software being reclassified to intangible assets.

Effective January 1, 2008 the Canadian Institute of Chartered Accountants Handbook Section 3031 *Inventories*, Sections 1535 *Capital Disclosures* and Sections 3862 & 3863 *Financial Instruments – Disclosure & Presentation* were adopted. The adoption of Section 3031 had no impact, given the short-term nature of our raw material inventory changing the inventory valuation policy from the lower of replacement cost to net realizable value was negligible. In

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accordance with Section 1535, management of the Fund's capital has been disclosed in the financial statements. In accordance with Section 3862 & Section 3863, disclosures were revised and enhanced to incorporate working capital management. Disclosures have also been enhanced in the "Credit risk" section to include an analysis of the short-term accounts receivable arising from the sale of goods that are past due.

New Accounting Pronouncements

International Financial Reporting Standards ("IFRS")

The Canadian Accounting Standards Board confirmed that publicly accountable enterprises will be required to adopt IFRS for interim and annual reporting purposes beginning January 1, 2011. As a result, management has developed a changeover plan comprising the following phases: (i) the initial assessment of high level differences between IFRS and current Canadian GAAP; (ii) the detailed analysis including the understanding of accounting policy choices and impact on the consolidated financial statements; (iii) the design incorporating accounting policy choices, and the understanding of their impact on IT systems, disclosure controls and internal controls over financial reporting and; (iv) the implementation of the choices and changes required to convert its consolidated financial statements to IFRS.

In 2008, management completed the initial assessment phase. By the second quarter of 2010, management expects to complete the second and third phases, with implementation completed by December 31, 2010. Based on work performed to date, the key areas expected to be impacted with the first time adoption of IFRS are: (a) enhanced note disclosure in the consolidated financial statements; (b) the reclassification of non-controlling interests; and (c) the investment in Joint Venture.

Disclosure Controls and Internal Controls over Financial Reporting

The Fund has established and maintains disclosure controls and procedures as well as internal controls over financial reporting. Richards Packaging Inc.'s Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of the disclosure controls and procedures as well as the design and operating effectiveness of internal controls over financial reporting as of December 31, 2009 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, 2009 and there have been no changes in the Fund's internal controls over financial reporting during the year ended December 31, 2009 that have materially affected, or are reasonably likely to materially affect, its internal controls over financial reporting.

Additional Information

Additional information relating to the Fund is available on Richards Packaging's website at www.richardspackaging.com, SEDAR at www.sedar.com or TSX at www.tsx.com.

¹ Management defines EBITDA as earnings before amortization, interest, losses (gains) on financial instruments and taxes. EBITDA is the same as income before under noted items, income taxes and non-controlling interests as outlined in the annual consolidated financial statements. Management believes that in addition to net income, EBITDA is a useful

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supplemental measure for investors of earnings available for distribution prior to debt service, capital expenditures and taxes. Management uses this measure as a starting point in the determination of earnings available for distribution to unitholders and exchangeable shareholders. In addition, EBITDA is intended to provide additional information on the Fund's operating performance. This earnings measure should not be construed as an alternative to net income or as an alternative to cash flows from operating, investing and financing activities as a measure of the Fund's liquidity and cash flows. EBITDA does not have a standardized meaning prescribed by GAAP and therefore the Fund's method of calculating EBITDA may not be comparable to similar measures presented by other companies or income trusts.

- 2 Management defines distributable cash flow, in accordance with Richards Packaging's credit agreement, as EBITDA less interest, cash income tax expense, maintenance capital expenditures and loan payments. The objective of presenting this measure is to calculate the amount which is available for distribution to unitholders and exchangeable shareholders. Investors are cautioned that distributable cash flow should not be construed as an alternative to cash flow from operating, investing and financing activities as a measure of the Fund's liquidity and cash flows. Distributable cash flow does not have a standardized meaning prescribed by GAAP and therefore the Fund's method of calculating distributable cash flow may not be comparable to similar measures presented by other income trusts.*
- 3 Management defines payout ratio as distributions and dividends declared over distributable cash flow². The objective of presenting this measure is to calculate the percentage of actual distributions in comparison to the amount available for distribution. Payout ratio does not have a standardized meaning prescribed by GAAP. The Fund's method of calculating the payout ratio may not be comparable to similar measures presented by other income trusts.*
- 4 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.*

Richards Packaging Income Fund

MANAGEMENT'S REPORT TO UNITHOLDERS

The accompanying consolidated financial statements of Richards Packaging Income Fund (the "Fund") and Management's Discussion and Analysis included in this Annual Report have been prepared by management and approved by the Board of Trustees of the Fund. The consolidated financial statements were prepared in accordance with accounting principles generally accepted in Canada and, where appropriate, reflect management's best estimates and judgments. Management is responsible for the accuracy, integrity and objectivity of the consolidated financial statements within reasonable limits of materiality and for the consistency of financial data included in the text of the Annual Report dated March 5, 2010.

Management, in discharging these responsibilities, maintains a system of internal controls designed to provide reasonable assurance that its assets are safeguarded, only valid and authorized transactions are executed and accurate, timely and comprehensive financial information is prepared.

The Fund's Audit Committee is comprised of trustees who are neither employees nor officers of the Fund. The Audit Committee meets with management as well as with the external auditors to satisfy itself that management is properly discharging its financial reporting responsibilities and to review the consolidated financial statements and the Auditors' Report. The external auditors have direct access to the Audit Committee of the Board of Trustees.

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

"Gerry Glynn"

Chief Executive Officer
Richards Packaging Inc.

"Enzio Di Gennaro"

Chief Financial Officer
Richards Packaging Inc.

Toronto, Ontario
March 5, 2010

AUDITORS' REPORT

To the Unitholders of Richards Packaging Income Fund

We have audited the consolidated balance sheets of Richards Packaging Income Fund ("the Fund") as at December 31, 2009 and 2008 and the consolidated statements of net income (loss) and comprehensive income, deficit and accumulated other comprehensive income (loss) and cash flows for the years then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

(signed) "PricewaterhouseCoopers LLP"

Chartered Accountants, Licensed Public Accountants
Toronto, Canada
March 5, 2010

Richards Packaging Income Fund

CONSOLIDATED BALANCE SHEETS

[expressed in thousands of dollars]

As at December 31

[2008 restated – note 3]

	2009	2008
	\$	\$
ASSETS [note 8]		
Current		
Cash and cash equivalents	2,071	202
Accounts receivable [note 14]	18,873	20,458
Inventory [note 4]	31,289	38,254
Prepaid expenses	2,010	1,687
Income taxes recoverable	10	416
Total current assets	54,253	61,017
Capital assets [note 5]	4,180	4,535
Intangible assets [note 6]	37,514	46,094
Future income tax assets [note 12]	21	53
Goodwill [note 7]	72,010	77,555
	167,978	189,254
LIABILITIES AND UNITHOLDERS' EQUITY		
Current		
Bank indebtedness	—	258
Accounts payable and accrued liabilities	18,604	23,290
Distributions and dividends payable [notes 9 and 10]	780	1,135
Due to previous shareholder of acquired company	825	966
Total current liabilities	20,209	25,649
Long-term debt [notes 8 and 11]	47,402	61,916
Future income tax liabilities [note 12]	8,581	11,065
Total liabilities	76,192	98,630
Non-controlling interests [note 9]	15,081	15,135
Unitholders' equity		
Units [note 10]	94,349	94,508
Deficit	(13,469)	(23,433)
Accumulated other comprehensive income (loss)	(4,175)	4,414
	(17,644)	(19,019)
Total unitholders' equity	76,705	75,489
	167,978	189,254
Commitments and contingencies [note 15]		

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

“Wayne McLeod”
Chair – Audit Committee

“Gerry Glynn”
CEO – Richards Packaging Inc.

“Enzio Di Gennaro”
CFO – Richards Packaging Inc.

Richards Packaging Income Fund

CONSOLIDATED STATEMENTS OF NET INCOME (LOSS) AND COMPREHENSIVE INCOME, DEFICIT AND ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

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

For the years ended December 31

[2008 restated – note 3]

	2009	2008
	\$	\$
Revenue	189,112	187,316
Cost of products sold	155,804	155,004
	33,308	32,312
General and administrative expenses	10,663	10,324
Foreign currency loss (gain) [note 14]	452	(108)
Income before under noted items, income taxes and non-controlling interests	22,193	22,096
Amortization and debt accretion	8,384	8,578
Patent defense costs	145	307
Interest expense [note 8]	3,974	4,498
Losses (gains) on financial instruments	(7,662)	12,596
Income (loss) before income taxes and non-controlling interests	17,352	(3,883)
Provision for (recovery of) income taxes [note 12]		
Current	2,766	1,971
Future	(1,709)	(3,932)
	1,057	(1,961)
Non-controlling interests [note 9]	2,455	(293)
Net income (loss) for the year	13,840	(1,629)
Basic and diluted income (loss) per Unit [note 10]	\$1.37	(\$0.16)
Other comprehensive income (loss)		
Unrealized foreign currency translation of Richards Packaging US	(8,589)	11,615
Comprehensive income for the year	5,251	9,986
STATEMENT OF DEFICIT		
Deficit, beginning of year	(23,433)	(10,407)
Net income (loss) for the year	13,840	(1,629)
Distributions declared to unitholders [note 10]	(3,876)	(11,397)
Deficit, end of year	(13,469)	(23,433)
ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)		
Accumulated other comprehensive income (loss), beginning of year	4,414	(7,201)
Other comprehensive income (loss)	(8,589)	11,615
Accumulated other comprehensive income (loss), end of year	(4,175)	4,414

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

Richards Packaging Income Fund

CONSOLIDATED STATEMENTS OF CASH FLOWS

[expressed in thousands of dollars]

For the years ended December 31

[2008 restated – note 3]

	2009	2008
	\$	\$
OPERATING ACTIVITIES		
Net income (loss) for the year	13,840	(1,629)
Add (deduct) items not involving cash		
Amortization		
Capital assets	1,500	1,453
Intangible assets	6,664	6,715
Debt accretion	220	410
Future income taxes	(1,709)	(3,932)
Non-controlling interests	2,455	(293)
Losses (gains) on financial instruments [note 14]		
Interest rate swap contract	(659)	354
Foreign currency translation of debt	(7,003)	12,242
	15,308	15,320
Net change in non-cash operating elements of working capital [note 16]	1,528	1,224
Cash provided by operating activities	16,836	16,544
INVESTING ACTIVITIES		
Additions to capital assets	(1,335)	(1,972)
Expenditures on computer systems software	(136)	—
Cash used in investing activities	(1,471)	(1,972)
FINANCING ACTIVITIES		
Decrease in bank indebtedness	(221)	(1,001)
Proceeds from debt, net	—	4,020
Repayment of short and long-term debt	(7,731)	(2,975)
Purchase of trust units for cancellation [note 10]	(309)	(1,018)
Dividends paid to exchangeable shareholders	(819)	(2,073)
Distributions paid to unitholders	(4,161)	(11,409)
Cash used in financing activities	(13,241)	(14,456)
Foreign currency loss	(255)	(17)
Net increase in cash and cash equivalents	1,869	99
Cash and cash equivalents, beginning of year	202	103
Cash and cash equivalents, end of year	2,071	202

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

Richards Packaging Income Fund

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

December 31, 2009

1. FORMATION OF THE FUND

Richards Packaging Income Fund [the “Fund”] is an open-ended, limited purpose trust established under the laws of the Province of Ontario 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 to facilitate the acquisition of 96% of the shares of Richards Packaging Inc. and an indenture note through a series of transactions for consideration of \$86,161. The ownership position is currently at 85% due to the issuance of shares exchangeable into Units in order to facilitate the financing of two subsequent acquisitions. Consistent with the change in distribution policy during 2009, an internal reorganization was executed by way of a series of intercompany transfers resulting in a reduction of \$11,567 in the indenture note outstanding at December 31, 2009.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Principles of consolidation

The consolidated financial statements include the accounts of the Fund, Richards Packaging Holdings Inc. [“Holdings”] and its subsidiaries, Richards Packaging Inc. [“Richards Canada”], Richards Packaging Holdings (US) Inc., 071907 Inc., Richards Packaging, Inc. and The E.J. McKernan Company [collectively “Richards Packaging US”] and 50% of Vision Plastics Inc. [“Vision”]. Vision, which is jointly controlled, is one of our three plastic container manufacturing plants. The non-controlling interest in the investments of the Fund is 15% [2008 – 15%]. Holdings and its subsidiaries are referred to as “Richards Packaging”.

Revenue recognition

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

Cash and cash equivalents & bank indebtedness

Cash and cash equivalents include cash on hand, demand deposits and highly liquid investments with a term to maturity of three months or less at the date of purchase. Bank indebtedness represents issued and outstanding cheques that have not yet been applied to the revolving credit facility. Cash balances with the right of offset are netted against bank indebtedness.

Richards Packaging Income Fund

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

December 31, 2009

Inventory

Raw materials 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 income 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	straight-line over 5 years
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. Computer systems software is amortized over 5 years, customer relationships and contracts are amortized over 10 or 15 years and patents are amortized over 12 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 the fair value of the net assets acquired.

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

Long-lived assets

Long-lived assets are comprised of capital assets and finite life intangible assets which are reviewed for impairment whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. For purposes of evaluating the recoverability of long-lived assets, a test is performed for finite life assets using undiscounted future net cash flows. Indefinite life intangibles are tested for impairment annually unless events or changes in circumstances indicate that the assets must be impaired. Should impairment exist, the loss would be measured as the difference between

Richards Packaging Income Fund

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

December 31, 2009

the carrying value and the fair value and recognized by way of an additional current period amortization charge. Management has not identified any such impairment losses to date.

Income taxes

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

Foreign currency translation

The unit of measure for the Fund and its investments, except for Richards Packaging US, is the Canadian dollar and therefore accounts in foreign currencies have been translated into Canadian dollars. Monetary items are recorded at exchange rates in effect at the balance sheet 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, except for amortization, which is translated at rates prevailing when the related assets were acquired. Gains and losses arising from foreign currency translations are included in income.

Richards Packaging US is treated as self sustaining foreign operations. All assets and liabilities are translated at exchange rates in effect on the balance sheet dates. Revenue and expenses, including amortization, are translated at average exchange rates prevailing during the year. Effects of translation are included in unitholders' equity as accumulated other comprehensive income (loss).

Derivative financial instruments

Derivative financial instruments are utilized from time to time to reduce interest rate risks on Richards Packaging's debt. Management does not enter into financial instruments for trading or speculative purposes. Richards Packaging had not designated its interest rate swap contract as a hedge for accounting purposes and, accordingly, records the fair value of these derivatives using a mark-to-market valuation basis, with changes during the year recognized in income as losses (gains) on financial instruments.

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.

Richards Packaging Income Fund

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

December 31, 2009

Comparative consolidated financial statements

Certain amounts in the comparative consolidated financial statements have been reclassified from consolidated financial statements previously presented to conform to the presentation of the 2009 consolidated financial statements.

3. CHANGE IN ACCOUNTING POLICIES

Effective January 1, 2009 the Fund adopted the following new recommendations of The Canadian Institute of Chartered Accountants Handbook:

Goodwill and Intangible Assets *[Section 3064]*

This standard establishes the approach for recognition, measurement, and disclosure of goodwill and intangible assets. Legal defense costs incurred to defend a patent infringement case which were previously capitalized and amortized over the patent's remaining useful life are now expensed in the period they are incurred and computer systems software that is not integral to any computer hardware and formerly included in capital assets is now classified as intangible assets. The impact was to decrease intangible assets by \$475, capital assets by \$262, future tax liabilities by \$209, non-controlling interests by \$42 and increase the deficit by \$486 as at December 31, 2008. For the 2008 year, the impact was to increase net loss by \$147 and basic and diluted loss per Unit by 0.1¢ as a result of patent defense costs of \$307 expensed, intangible asset amortization decreased by \$72, recovery of future income taxes increased by \$63 and non-controlling interests increased by \$25. In addition, amortization of intangible assets increased and capital assets decreased by \$276 as a result of computer systems software being reclassified to intangible assets. The deficit as at January 1, 2007 was increased by \$339 which is the net amount of these adjustments to prior periods.

Effective January 1, 2008 the Fund adopted the following new recommendations of The Canadian Institute of Chartered Accountants Handbook:

Inventories *[Section 3031]*

This standard relates to the accounting for inventories and revises and enhances the requirements for assigning costs to inventories. It also outlines the treatment for the subsequent write-up of inventory previously written down to net realizable value requiring separate disclosure for inventories that were written down to net realizable value and recognition of the expense or income resulting from changes in value *[note 4]*. Given the short-term nature of our inventory there was no impact to changing valuation policy of raw material from the lower of cost and replacement cost to the lower of cost and net realizable value.

Capital Disclosures *[Section 1535]*

This standard establishes requirements for the disclosure of qualitative and quantitative information about an entity's capital structure and how it is managed *[note 11]*.

Richards Packaging Income Fund

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

December 31, 2009

Financial Instruments – Disclosure and Presentation [Sections 3862 and 3863]

These standards replace *Section 3861, Financial Instruments - Disclosure and Presentation*, revising and enhancing disclosure requirements placing increased emphasis on the nature and extent of risks arising from financial instruments and how Richards Packaging manages those risks [note 14].

4. INVENTORY

Finished goods represent 98% [2008 – 98%] of total inventory as at December 31, 2009. Richards Packaging recognized write-downs as an expense of \$2,321 for the year ended December 31, 2009 [2008 – \$327].

5. CAPITAL ASSETS

	Cost	Accumulated amortization	Net book value	
	\$	\$	2009	2008
	\$	\$	\$	\$
Manufacturing equipment	5,410	4,073	1,337	1,316
Moulds	4,696	3,442	1,254	1,373
Computer equipment	1,050	711	339	372
Computer software	129	96	33	47
Warehouse and office equipment	1,124	603	521	655
Leasehold improvements	1,052	356	696	772
	13,461	9,281	4,180	4,535

6. INTANGIBLE ASSETS

	Cost	Accumulated amortization	Net book value	
	\$	\$	2009	2008
	\$	\$	\$	\$
Customer relationships and contracts	63,347	31,720	31,627	39,233
Computer systems software	1,525	1,380	145	262
Patents	3,800	1,428	2,372	2,695
Trademarks	3,370	—	3,370	3,904
	72,042	34,528	37,514	46,094

Intangible assets amortization is not deductible for tax purposes.

Richards Packaging Income Fund

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

December 31, 2009

7. GOODWILL

	2009	2008
	\$	\$
Goodwill, beginning of year	77,555	70,187
Foreign currency translation gain (loss)	(5,545)	7,368
Goodwill, end of year	72,010	77,555

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

8. SHORT AND LONG-TERM DEBT

Richards Packaging has available revolving and term debt credit facilities. The revolving credit facility of \$7,000 [2008 – \$7,000] matures on June 2, 2010 and bears interest at the prime rate plus a premium of 2.5% to 3.25%. The effective interest rate at December 31, 2009 was 5.4% [2008 – 6.2%]. There was no amount drawn on the facility at December 31, 2009 or 2008.

The term loan credit facility of \$47,719 [2008 – U.S.\$51,000] matures on June 3, 2011 and bears interest at the bankers' acceptance borrowing plus a premium of 3.0% to 3.75%. The effective interest rate at December 31, 2009 was 5.1% [2008 – 6.4%]. On July 31, 2009, Richards Packaging converted the U.S. denominated term loan into Canadian denominated debt at U.S./Cdn. 92.3¢. During the year ended December 31, 2009, \$7,731 of the term debt was repaid [2008 – \$1,237]. This facility was subject to an interest rate swap on U.S.\$30,000 which expired on June 5, 2009. The term loan is presented net of unamortized debt issue costs of \$317 [2008 – \$539]. In 2008, Richards Packaging converted the then outstanding balance of the revolving and acquisition credit facilities into a new term debt facility bringing the total term debt at the time to U.S.\$52,000. Richards Packaging had available an acquisition credit facility which was cancelled December 10, 2008 and bore interest at LIBOR plus a premium of 2.0% to 2.75%. The effective interest rate when cancelled was 5.3%.

Interest expense for the year ended December 31, 2009 is comprised as follows: term loan and revolving credit interest of \$3,028 [2008 – \$3,717], credit card commission charges of \$630 [2008 – \$576] and credit facility charges of \$316 [2008 – \$205].

Richards Packaging has provided a first charge over all of its assets as collateral for the revolving and term credit facilities.

Richards Packaging Income Fund

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

December 31, 2009

9. NON-CONTROLLING INTERESTS

The non-controlling interests represent exchangeable shares issued by Richards Packaging to officers on the initial public offering and in connection with two business acquisitions.

	Number of shares	\$
Balance, December 31, 2007	1,793,533	15,392
Other comprehensive income allocation		2,133
Share of net loss		(293)
Dividends		(2,097)
Balance, December 31, 2008	1,793,533	15,135
Conversion to Units	(18,500)	(150)
Other comprehensive income allocation		(1,610)
Share of net income		2,455
Dividends		(749)
Balance, December 31, 2009	1,775,033	15,081

The exchangeable shares are redeemable by Richards Packaging on the fifth anniversary of their issue date, or prior to that date in limited circumstances, and are retractable by the shareholders at any time. A retraction or redemption of exchangeable shares will be paid in Units on a one-for-one basis. The exchangeable shares issued by Richards Packaging Holdings (US) Inc. are retractable on a limited basis by the shareholder in increments of up to U.S.\$2,000 at the end of each issue anniversary however, the Fund has the option to settle the redemption in cash. Exchangeable shares carry the right to vote at any meeting that unitholders are entitled to vote on the same basis.

Dividends paid to exchangeable shareholders are not subordinated to distributions to unitholders and are declared on the same basis net of applicable taxes. Dividends are made monthly to shareholders of record on the last business day of each month and paid on the 14th day of the following month. Dividends during the months from March through to September of the year ended December 31, 2009 were temporarily suspended consistent with the suspension of distributions [note 10].

10. UNITS

The Fund initiated a normal course issuer bid on November 16, 2009 to purchase up to 202,000 Units [2008 – 307,700] prior to November 15, 2010. During the year, 43,006 Units [2008 – 116,305] were purchased for an average price of \$6.98/Unit [2008 – \$8.75/Unit].

Richards Packaging Income Fund

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

December 31, 2009

	Number of Units	Carrying value \$	Discount \$	\$
Balance, December 31, 2007	10,231,027	95,524	2	95,526
Purchased for cancellation, net	(116,305)	(1,086)	68	(1,018)
Balance, December 31, 2008	10,114,722	94,438	70	94,508
Issued to replace exchangeable shares	18,500	150	—	150
Purchased for cancellation, net	(43,006)	(409)	100	(309)
Balance, December 31, 2009	10,090,216	94,179	170	94,349
			2009	2008
Weighted average number of Units outstanding				
Basic			10,111,490	10,158,325
Diluted			11,903,452	11,951,858

Fund Units

The Declaration of Trust provides that an unlimited number of Units may be issued. Each Unit is transferable and represents an equal undivided beneficial interest in any distributions of the Fund and in the net assets of the Fund. All Units have equal rights and privileges. Each Unit entitles the holder thereof to participate equally in allocations and distributions and to one vote at all meetings of unitholders for each whole Unit held. The Units issued are not subject to future calls or assessments. Units are redeemable at any time at the option of the holder at amounts related to market prices at the time, subject to a maximum of \$50 in cash redemptions by the Fund in any particular month.

Distributions

Distributions are made monthly to unitholders of record on the last business day of each month and paid on the 14th day of the following month. Distributions during the months from March through to September of 2009 were temporarily suspended and the surplus cash was used to repay debt. Monthly distributions were declared for January and February of \$946, or 9.35¢ per Unit, and for October through December began at \$663 and ended at \$661, or 6.55¢ per Unit, reflecting unit buyback activity by the Fund [2008 – began at \$957 and ended at \$946, or 9.35¢ per Unit].

Long-term incentive plan

Key senior management of Richards Packaging are eligible to participate in the long-term incentive plan [the “LTIP”]. Units awarded under the LTIP will vest over a three-year period, with one-third of the Units vesting each year. The contributions to the LTIP ceased as of April 4, 2007 and the

Richards Packaging Income Fund

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

December 31, 2009

yearly vesting period was completed in 2009. The Trustees committed to annual funding of \$100 for three years starting in 2010.

11. CAPITAL STRUCTURE

The Fund's capital consists of unitholders' equity, non-controlling interests represented by exchangeable shareholders 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, non-controlling interests 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 3.25 times until June 30, 2009 and was reduced to 2.75 starting September 30, 2009. As of December 31, 2009 the leverage ratio was 2.13. In addition, the Fund is required to maintain a fixed charge coverage ratio of greater than 2.50 times and a minimum net worth of \$70,000.

The Fund 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 and dividends, purchases of units for cancellation pursuant to normal course issuer bids, issues of new shares and/or Units, and refinancing the debt to replace existing debt with different characteristics. During the months from March through to September of 2009, the Trustees temporarily suspended distributions with the resulting surplus cash flow used to repay debt.

12. INCOME TAXES

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

	2009	2008
	\$	\$
Future income tax assets – long-term		
Capital assets	(3)	(13)
Equity placement fees	—	31
Loss for income taxes not utilized	24	35
	21	53

Richards Packaging Income Fund

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	2009	2008
	\$	\$
Future income tax liabilities – long-term		
Capital assets	395	345
Unrealized gains on financial instruments	—	(208)
Customer relationships and contracts ¹	11,411	14,666
Patents ¹	700	835
Equity placement fees	—	(74)
Loss for income taxes not utilized	(3,643)	(3,924)
Working capital	(348)	(550)
Other	66	(25)
	8,581	11,065

¹ Reversal of patents and customer relationships and contracts accounts will not give rise to income taxes.

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

	2009	2008
	\$	\$
Income (loss) before income taxes and non-controlling interests	17,352	(3,883)
Distributions to unitholders, not subject to income taxes in the Fund	(3,967)	(9,534)
Income (loss) subject to income taxes	13,385	(13,417)
Statutory tax rate	31.5%	32.5%
Income taxes expense (recovery) at statutory tax rate	4,216	(4,361)
Future income tax recovery	1,709	3,932
Current period adjustments		
Foreign currency translation of debt	(2,217)	2,991
Withholding tax	484	327
Foreign tax differential	(1,560)	(1,435)
Change in enacted rates	(397)	66
Other items	531	451
Current income taxes	2,766	1,971

During 2007, the Income Tax Act was amended to change the manner in which most publicly traded income trusts, such as the Fund, and the distributions from such trusts are taxed. Generally, the new rules apply an entity level tax on income earned by the trust at a rate approximately equal to the tax rate applicable to income earned by a Canadian public corporation, and treat the distributions of such income received by unitholders as taxable dividends received from a Canadian corporation. The new rules will be effective in 2011 unless the Fund were to grow, through the issuance of Units and/or convertible debt, in excess of \$50,000 per year.

Richards Packaging Income Fund

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Richards Packaging's capital structure involves commercially reasonable intercompany financing generating interest expense, which serves to reduce income and therefore income taxes payable in the United States. Management has taken steps to ensure these financings are commercially reasonable however, there can be no assurance the Internal Revenue Service will not challenge the tax filing position taken by Richards Packaging US, in which case some or all of the otherwise deductible interest would be treated as non-deductible distributions.

13. RELATED PARTY TRANSACTIONS AND JOINT VENTURE

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

	2009	2008
	\$	\$
Leases of facilities from certain officers and their related entities	470	803
Product purchases from Vision	7,032	8,098

Richards Canada owns a 50% interest in a joint venture, Vision. Financial information relating to the joint venture before intercompany eliminations is as follows:

	2009	2008		2009	2008
	\$	\$		\$	\$
Balance sheet					
Assets			Liabilities		
Current assets	1,643	1,355	Current liabilities	751	528
Capital assets	540	704			
Future income taxes	39	42			
Total assets	2,222	2,101	Total liabilities	751	528
Statement of income					
Revenue				7,032	8,098
Expenses				7,198	8,356
Net loss				(166)	(258)
Additional information					
Cash provided by operating activities				364	279
Cash used in investing activities				120	25
Cash used in financing activities				—	55

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

Richards Packaging Income Fund

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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14. FINANCIAL INSTRUMENTS

Fair value

Cash and cash equivalents, accounts receivable, bank indebtedness, accounts payable and accrued liabilities, distributions and dividends 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 bank indebtedness are classified as held-for-trading and accounts receivable are classified as loans and receivables. All financial liabilities other than bank indebtedness are classified as other financial liabilities.

The fair value of long-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.

Credit risk

Richards Packaging's financial assets exposed to credit risk consist primarily of trade accounts receivable arising from the sale of goods.

Concentration of credit risk with respect to accounts receivable is limited due to the large number of customers and geographical dispersion. As at December 31, 2009 and 2008, no customer represented 10% or more of accounts receivable or sales. The accounts receivable amount recorded in the consolidated balance sheet is net of an allowance of doubtful accounts estimated based on prior experience and the aging of the individual customer account.

Past due accounts are aged as follows:	2009	2008
	\$	\$
Not impaired		
Up to 60 days past due	7,903	7,131
61 – 90 days past due	483	838
Impaired		
Over 90 days past due	393	624

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 of December 31, 2009 is sufficient to cover current accounts and impaired accounts.

Liquidity risk

Richards Packaging's approach to managing liquidity risk is to ensure that sufficient funds are available to meet financial obligations as they come due *[note 15]*. This is achieved through a

Richards Packaging Income Fund

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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combination of cash balances, availability of credit facilities *[note 8]*, surplus cash flow from operations, distribution policy and matching the maturities of financial assets and liabilities.

Interest rate risk

Richards Packaging is exposed to interest rate risk due to variable interest rates on the revolving and term loan credit facilities. Richards Packaging had entered into an interest rate swap contract with approved creditworthy counterparties to June 5, 2009 on a notional principal amount equal to the then U.S.\$30,000 term debt outstanding. The mark-to-market valuation of the swap contract up to its expiry on June 5, 2009 gave rise to a gain of \$659 [2008 – \$354 loss]. All debt is now subject to variable interest rates [2008 – U.S.\$21,000] and a 1.0% movement in interest rates would have impacted net income by \$329 [2008 – \$150].

Foreign currency risk

Richards Packaging is exposed to U.S./Cdn. currency fluctuations on cross-border transactions, on the translation of U.S. dollar denominated debt and the earnings of Richards Packaging US. A foreign currency loss of \$452 has been recorded for the year ended December 31, 2009 [2008 – \$108 gain] relating to cross border transactions. A foreign currency gain of \$7,003 [2008 – \$12,242 loss] from the translation of the U.S. dollar denominated term debt has been recorded as a result of the change in the U.S./Cdn. rate from 82¢ to 92¢ for the seven months ended July 31, 2009 at which time the term debt was converted into a Canadian dollar obligation.

15. COMMITMENTS AND CONTINGENCIES

The minimum rental payments, exclusive of occupancy charges, required under the leases for Richards Packaging's premises are as follows:

	Related parties \$	Other \$	Total \$
2010	484	3,099	3,583
2011	498	3,051	3,549
2012	513	2,840	3,353
2013	529	2,722	3,251
2014	544	1,861	2,405
Thereafter	2,878	3,635	6,513

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 of Richards Packaging.

Richards Packaging Income Fund

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

December 31, 2009

16. CONSOLIDATED STATEMENTS OF CASH FLOWS

Components of cash and cash equivalents consist entirely of cash. The net change in non-cash operating elements of working capital consists of the following:

	2009	2008
	\$	\$
Accounts receivable	151	2,309
Inventory	3,947	(1,797)
Prepaid expenses	(499)	728
Accounts payable and accrued liabilities	(2,464)	616
Income taxes recoverable/payable	393	(632)
	1,528	1,224

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

	2009	2008
	\$	\$
Interest paid	4,341	4,484
Income taxes paid	2,238	2,726

17. SEGMENTED INFORMATION

Richards Packaging operations consist of one reporting segment, principally in the distribution of plastic and glass containers and associated closures. The geographic distribution of revenue, capital assets and goodwill is as follows:

	Canada		United States	
	2009	2008	2009	2008
	\$	\$	\$	\$
Revenue	94,123	104,680	94,989	82,636
Capital assets and goodwill	41,300	41,426	34,890	40,664

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

Richards Packaging Income Fund
UNITHOLDER INFORMATION

Trustees

Donald Wright
Chairman

Wayne McLeod
Chair – audit committee

Derek Ridout
Chair – compensation and corporate
governance committee

Rami Younes
Trustee

Gerry Glynn
Trustee

Management Team

Gerry Glynn
Chief executive officer

David Prupas
President and Chief operating officer

Enzio Di Gennaro
Chief financial officer

Terry Edwards
Vice president

Timothy McKernan
President, McKernan Packaging

Corporate Information

Head office

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

Auditors

PricewaterhouseCoopers LLP
5700 Yonge Street Suite 1900
Toronto, Ontario M2M 4K7

Transfer agent and registrar

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

Toronto Stock Exchange listing

Symbol : RPI.UN

Investor information

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

Annual meeting

Friday May 14th at 9:30 a.m.
Brookfield Place
181 Bay Street, Suite 2500
Toronto, Ontario M5J 2T7