Richards Packaging Income Fund

MANAGEMENT'S DISCUSSION AND ANALYSIS

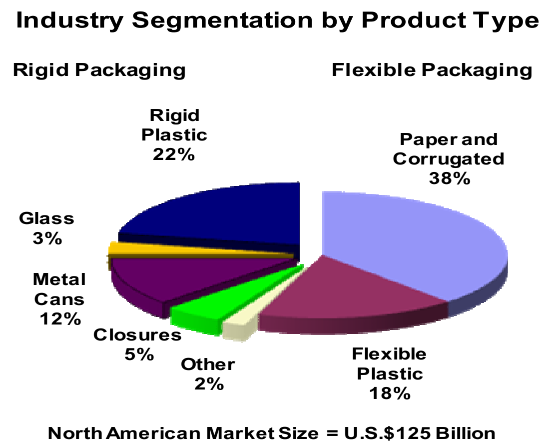
(*expressed in thousands, except where otherwise indicated and per Unit amounts*)

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.

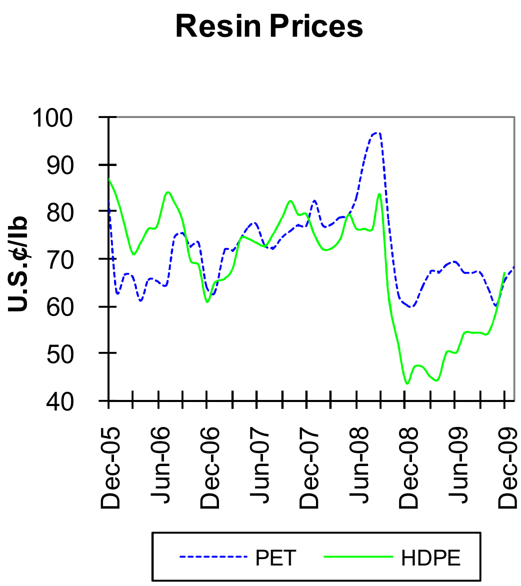
North American Packaging Industry

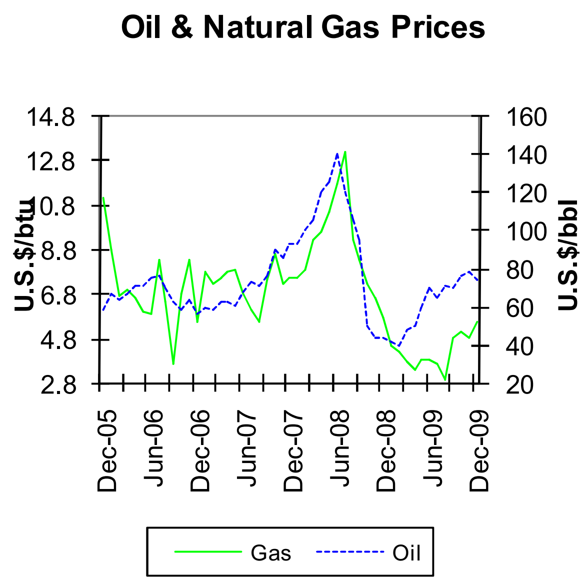
Packaging is pervasive, as almost all products are delivered in some form of packaging. The properties of packaging fulfils not only the practical, transportability, protection functions and shelf life, but also serves to differentiate products and communicate branding messages such as quality, safety 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.



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 EBITDA[1] (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.





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.

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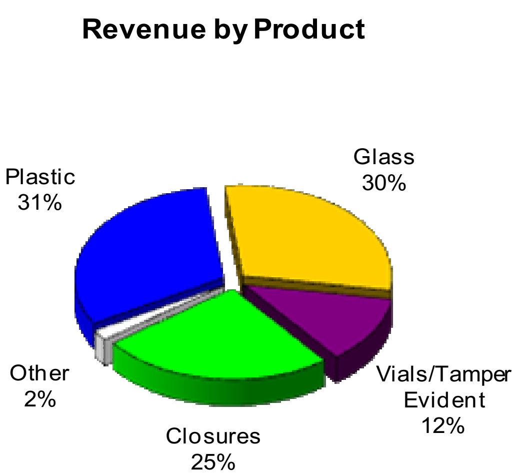
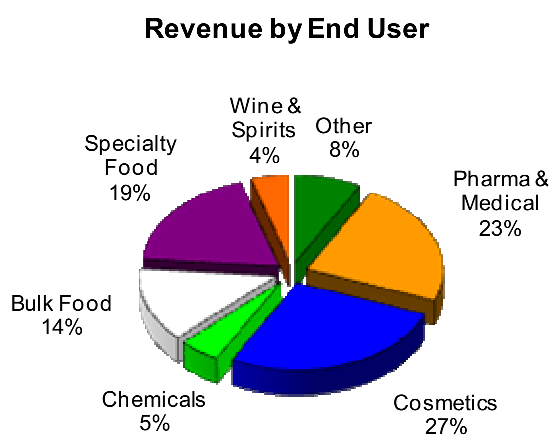
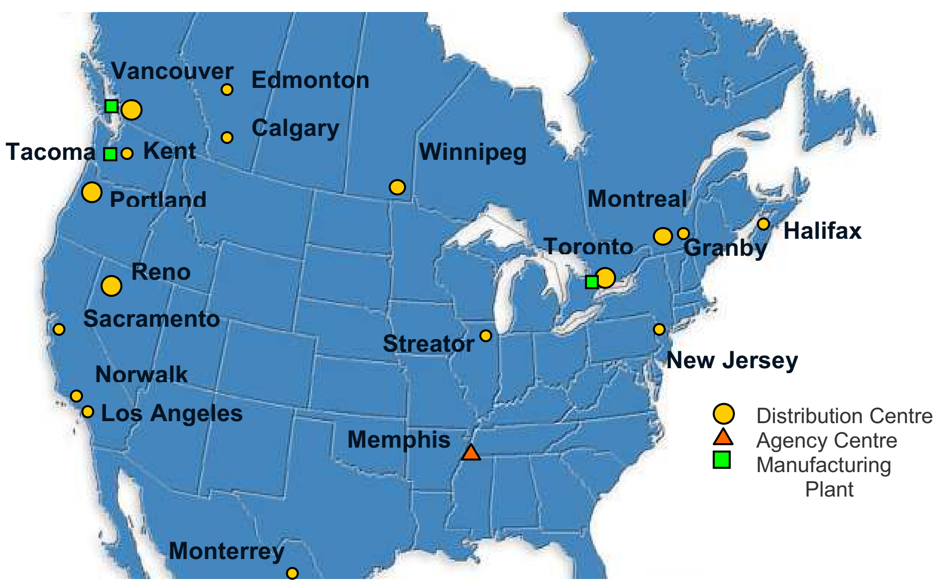
(expressed in thousands, except where otherwise indicated and per Unit amounts)

March 5, 2010



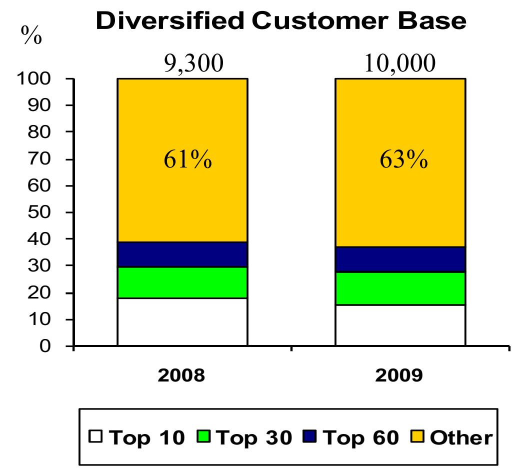


Richards Packaging Locations



The cornerstones of Richards Packaging's strategy include:

- Focusing on a diversified customer base dominated by small regional premium product marketers,
- Providing a complete one-stop source of packaging solutions,
- Being one of the largest distributors of European and Asian glass for the specialty food, wine and spirits markets,
- Being the largest supplier of packaging to the prescription drug and pharmaceutical markets in Canada,
- Being the largest distributor of surplus packaging, and
- Being the only major distributor with dedicated in-house plastics manufacturing capability.



During 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.

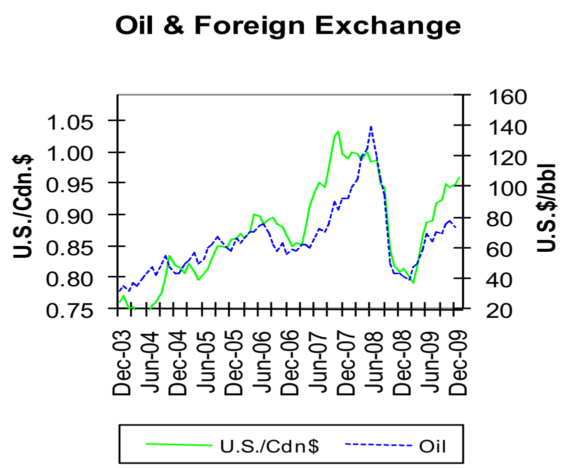
Richards Packaging Income Fund (the "Fund") is a limited purpose, open-ended trust created on February 26, 2004 to invest in packaging distribution businesses throughout North America. The Fund commenced operations on April 7, 2004 when the Fund completed an initial public offering of 8,569,913 trust 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 EBITDA[1] 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 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,
- EBITDA[1] 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 flow[2] of $1.24 per Unit. At the current level of monthly distributions of 6.55¢ per Unit, the payout ratio[3] was 74% for the fourth quarter.

Richards Packaging Income Fund

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

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**
Diluted per Unit	*42.3¢*	*45.4¢*	*51.7¢*	*50.4¢*	*49.7¢*	*46.1¢*	*42.8¢*	*43.0¢*	*$1.86*	*$1.85*	*$1.61*
Net income (loss)	**339**	**277**	**6,561**	**3,055**	**5,400**	**534**	**1,540**	**(5,495)**	**13,840**	**(1,629)**	**11,230**
Diluted per Unit	*3.4¢*	*2.7¢*	*64.8¢*	*30.0¢*	*53.4¢*	*5.3¢*	*15.2¢*	*(54.0¢)*	*$1.37*	*($0.16)*	*$1.08*
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**
Diluted per Unit	*19.1¢*	*28.1¢*	—	*28.1¢*	—	*28.1¢*	*19.8¢*	*28.4¢*	*$0.39*	*$1.13*	*$1.12*
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

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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**
	16.6%	*18.0%*	*17.7%*	*17.5%*	*17.9%*	*17.0%*	*18.2%*	*17.0%*	*17.6%*	*17.4%*	*17.1%*
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**
	10.8%	*12.3%*	*12.5%*	*12.3%*	*12.4%*	*11.3%*	*11.1%*	*11.3%*	*11.7%*	*11.8%*	*11.2%*
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

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).

EBITDA[1] 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**	**—**	**—**	**—**	**27**	**40**
Distributable cash flow[2]	**3,229**	**3,750**	**4,071**	**4,117**	**4,230**	**3,434**	**3,177**	**3,482**	**14,707**	**14,783**	**12,854**
Diluted per Unit	*27.1¢*	*31.2¢*	*34.2¢*	*34.4¢*	*35.6¢*	*28.8¢*	*26.8¢*	*29.2¢*	*$1.24*	*$1.24*	*$1.17*
Distributions	**2,277**	**3,370**	**—**	**3,361**	**—**	**3,357**	**2,348**	**3,394**	**4,625**	**13,482**	**12,328**
Diluted per Unit	*19.1¢*	*28.1¢*	—	*28.1¢*	—	*28.1¢*	*19.8¢*	*28.5¢*	*$0.39*	*$1.13*	*$1.12*
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 flow[2] definition excludes changes in working capital and capital expenditures for expansion of the business, as they are necessary to drive organic growth and are expected to be financed by a $7.0 million revolving facility available to Richards Packaging (nil drawn; 2008 – nil drawn).

Distributable cash flow[2] 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 ratio[3] 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.

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 2011[4].

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.

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

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 EBITDA[1] 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 future[4].

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.

Outlook[4]

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.$

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¢.

EBITDA[1] 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 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.

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 flow[2].

Goodwill

Goodwill represents the excess purchase price of acquired businesses over the estimated fair value of the net assets acquired. Goodwill is not amortized but is reviewed for impairment annually or more frequently if impairment indicators arise. Although the Unit price 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 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.

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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*

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 flow*[2]*. The objective of presenting this measure is to calculate the percentage of actual distributions in comparison to the amount available for distribution. Payout ratio does not have a standardized meaning prescribed by 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.*