Richards Packaging Income Fund

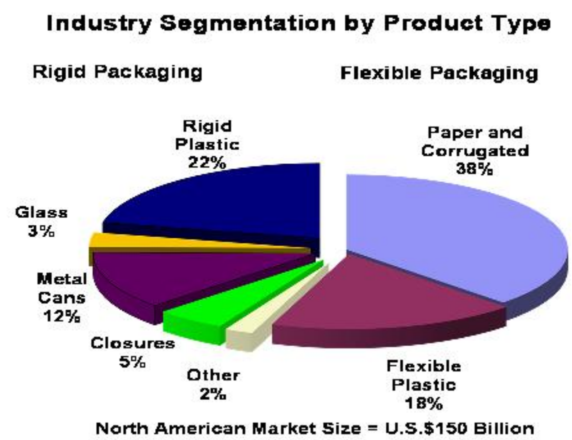
MANAGEMENT'S DISCUSSION AND ANALYSIS

March 7, 2014

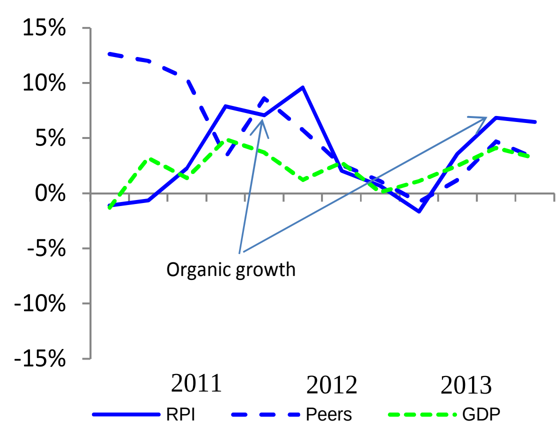
This management's discussion and analysis of Richards Packaging Income Fund ("MD&A") for the year should be read in conjunction with the attached audited financial statements for the year ended December 31, 2013, the quarterly reports for the periods ended March 31, June 30 and September 30, 2013 and the Annual Information Form dated March 7, 2014. Results are reported in Canadian dollars and have been prepared in accordance with International Financial Reporting Standards on a consistent basis with the annual financial statements.

North American Packaging Industry

Packaging is pervasive, as almost all products are delivered in some form of packaging. The properties of packaging fulfils not only the practical, transportability, protection functions and shelf life, but also serves to differentiate products and communicate branding messages such as quality, safety and consumer satisfaction. The latest ergonomically complex packaging components' design reflects significant investment in market research and product development. To meet the needs of this changing marketplace, the packaging industry has segmented into different product types outlined in the adjacent chart. Markets strengthened in 2013 in line with GDP expansion.



Revenue growth



As large product marketers have consolidated, packaging companies have embarked on a parallel industry consolidation strategy to meet their needs. Concentration is high in the glass, metal and paper segments with two to five companies controlling approximately 90% of their market and concentration is medium in the rigid plastic, flexible plastic and closure segments with 10 to 15 companies controlling 50% to 60% of their market. In 2013, there were over 152 acquisitions in the global packaging industry, down 18% over 2012 and well below pre-2008 levels, with an average value of U.S.$106 million (2012 – U.S.$97 million) at a median multiple of 7.0 times EBITDA[1] (2012 – 6.8). During 2013, the top 20 companies continued to spend on capital at the cautious rate of 4% of revenue. At the same time, excess capacity is continually being addressed with divestitures by conglomerates.

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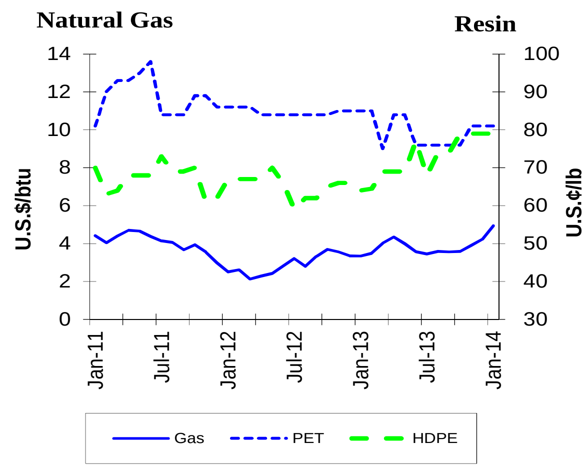
Energy prices continue to be a major factor for the industry affecting glass furnace economics, resin costs and freight costs. In 2011, resin prices gapped out from natural gas, their main feedstock, as prices were more driven by supply and demand with low PET and HDPE inventory levels. Financing structures in place at most packaging companies are similar to that of an income trust, with significant use of debt priced anywhere from 3% to 7% and free cash flow as defined within the industry at 3%, which ensures that a disciplined approach to passing cost increases through will remain in place. Clear evidence is that for the top 20 companies, their EBITDA as defined within the industry as a percent of sales has remained at a healthy 13% overall for 2013.



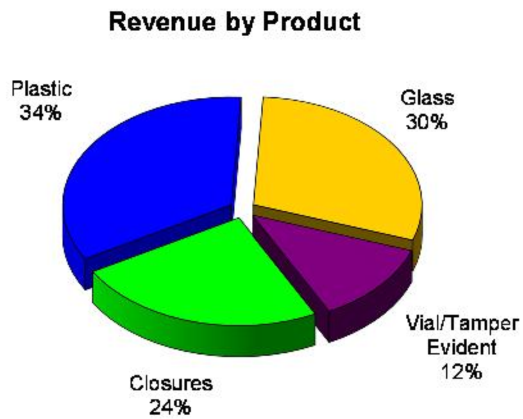
PET – Polyethylene terephthalate; HDPE – High Density Polyethylene

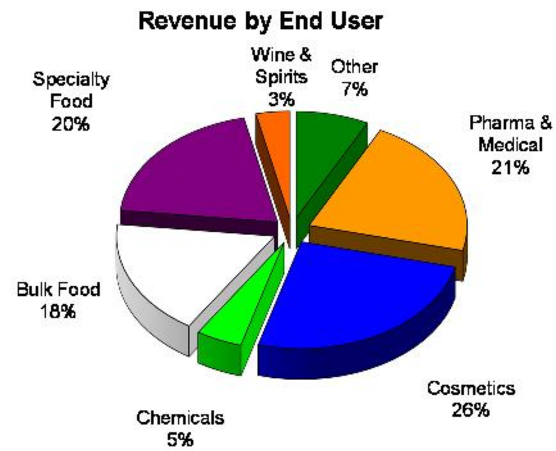
Description of the Business and Fund Profile

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

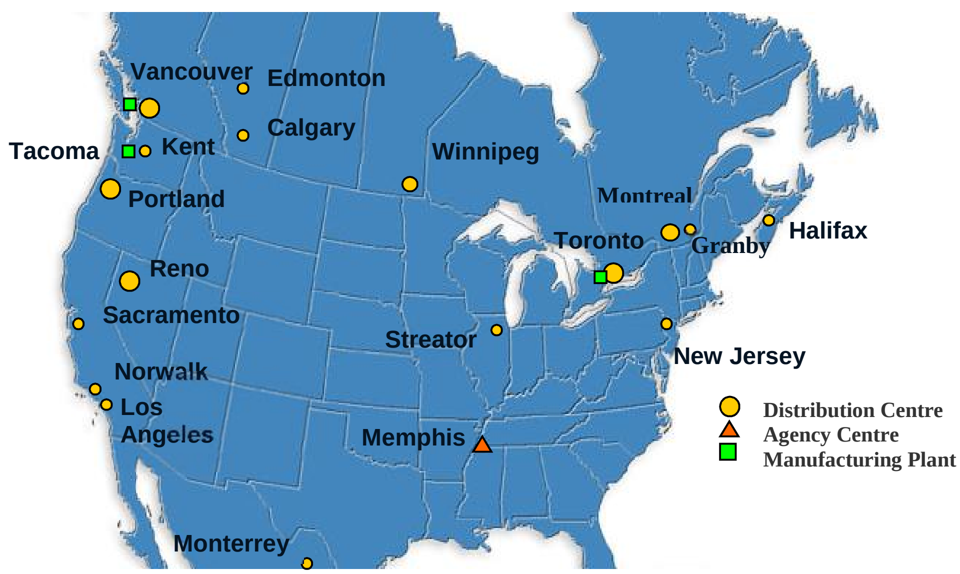
Richards Packaging Income Fund (the "Fund") is a limited purpose, open-ended trust created on February 26, 2004 to invest in packaging distribution businesses throughout North America. The Fund commenced operations on April 7, 2004 when the Fund completed an initial public offering of 8,569,913 trust units of the Fund ("Units") at a price of $10 per Unit and indirectly purchased 96% of the securities of Richards Packaging Inc.

Richards Packaging serves a wide customer base that is comprised of approximately 11,500 regional food, beverage, cosmetic, specialty chemical, pharmaceutical and other companies (2012 – 11,300). 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 (2012 – 15%). In addition to providing its customers with a wide range of packaging solutions, Richards Packaging provides design and development services and comprehensive logistics management through 17 sales offices and one agency location.



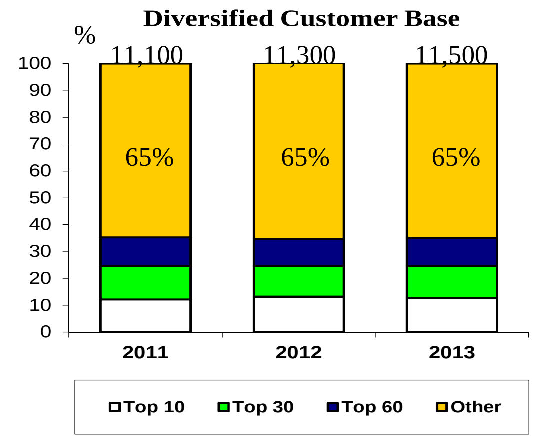


Richards Packaging Locations



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 2013, management continued to strategically reposition Richards Packaging in the marketplace to optimize the concentration of large customers and focus on customers with the highest value for the unique product offering and services we provide. The concentration of our top 60 customers increased in 2013 by $3 million (2012 – increased $2 million) in addition to the $4 million growth in small customers (2012 – $7 million) as they experienced a growth rate of 3% per annum (2012 – 6%).

Impact of Changes in Financial Markets

The global economic downturn that began in late 2008 continued through to 2013 which impacted the credit markets, foreign exchange and the economic climate.

Credit Markets and Interest rates

Short term borrowing rates have stayed low as governments across the globe attempt to avert another recession and in recognition of the jobless recovery. Rates have remained constant with short term BA's settling in at 1.2% since 2011.

Foreign Exchange

Exchange rates averaged U.S./Cdn. $0.97 leading to an impact on both revenue and EBITDA of $3.1 million and $0.5 million, respectively in the year. Volatility continued into 2014 with exchange rates dropping to U.S./Cdn. $0.90 as we face a lackluster Canadian economy as opposed to the more robust US economy.

($ millions)	**2011**	**2012**	**2013**
INTEREST RATES	*1.2%*	*1.2%*	*1.2%*
Impact on Interest	0.2	—	—
F/X - U.S./Cdn.$	*1.01*	*1.00*	***0.97***
Impact on:			
Revenue	(3.5)	1.0	**3.1**
EBITDA	(0.5)	0.1	**0.5**

MANAGEMENT'S DISCUSSION AND ANALYSIS

March 7, 2014

Economic Recession

After experiencing consecutive quarters of negative growth in 2009, the gross domestic product growth rates in the United States and Canada remained mainly in positive territory for 2010 through 2013. In Canada, the year saw modest growth rates at 0.7% for 2013 while the United States grew from 1.1% in the first quarter, up to 2.5%, 4.1% and 2.4% in the second, third and fourth quarters. These patterns of growth were reflected in our US operations where growth was in excess of 5.0% but relatively benign in our Canadian operations.

Highlights and Selected Financial Information

The MD&A covers the three and 12 months ended December 31, 2013 and 2012 (generally referred to in this MD&A as the "fourth quarter" and the "year" respectively).

Highlights of the overall performance for the year include:

- Revenue up 3.8%, mainly due to organic growth in Richards Packaging US and a 2.9¢ U.S./Cdn. drop,
- EBITDA[1] up $0.2 mil. representing 10.9% of sales or a 17.4% return on net operating assets,
- Inventory write down of $1.2 mil. (2012 – $0.7 mil.),
- Current income taxes up $2.3 mil. due to higher Richards Packaging US earnings, withholding taxes and taxes in Richards Canada,
- Net income down $1.1 mil. due primarily to patent defense legal costs and the mark-to-market losses on exchangeable shares partially offset by reversal of disputed duties and lower financial expenses,
- Non-cash working capital decrease of $3.7 mil. – $4.6 mil. decrease in inventory,
- Term debt repayments of $6.0 mil.,
- Paid monthly distributions of 6.55¢ per Unit to yield a 7.5% return (@$10.52/Unit – Dec 31st),
- Buy back of $0.4 mil., or 47,800 Units (@ $8.92/Unit), under the normal course issuer bid, and
- Distributable cash flow[2] decreased by 19¢ to $1.09 per Unit yielding a payout ratio[3] of 72%.

Distribution policy is set by the Trustees after giving careful consideration to the projected cash flows of the Fund, the long-term sustainability of the distribution level and the balance of risks and future prospects of the investments of the Fund. This policy is not set based upon net income due to various non-cash accounting charges that depress net income such as amortization, gains and losses on financial instruments and deferred income taxes. Factors considered when setting this level included the Income Trust tax beginning in 2011, the current low interest rates and the cash needs of operations. The Fund concluded, after consultation with its advisors, not to voluntarily convert to a common share entity by December 31, 2012 and therefore has foregone the eligibility for a tax-free rollover on conversion to common shares. Factors considered were current demand for units, access to capital markets as an Income Trust and costs to convert.

($ thousands)	Qtr. 1		Qtr. 2		Qtr. 3		Qtr. 4		Calendar Year		
	2013	**2012**	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**	**2011**
Income Statement Data:											
Revenue…………………	**47,415**	48,222	**50,973**	49,219	**52,066**	48,735	**48,074**	45,157	**198,528**	191,333	182,263
EBITDA[1] ………………	**5,136**	5,645	**5,841**	5,665	**5,667**	5,387	**4,967**	4,699	**21,611**	21,396	19,509
Diluted per Unit ……..	*43.7¢*	*47.8¢*	*49.8¢*	*48.0¢*	*48.3¢*	*45.7¢*	*42.4¢*	*36.2¢*	*$1.84*	*$1.78*	*$1.65*
Net income…………….	**763**	(735)	**2,247**	3,695	**863**	1,338	**1,084**	1,763	**4,957**	6,061	8,098
Diluted per Unit[c)] ……	*7.1¢*	*-6.8¢*	*19.5¢*	*19.8¢*	*8.1¢*	*12.5¢*	*10.2¢*	*10.9¢*	*$0.46*	*$0.56*	*$0.64*
Financial Position Data:											
Net operating assets…….	**127,603**	131,966	**128,196**	132,636	**124,787**	129,558	**123,957**	127,587	**123,957**	127,587	133,348
EBITDA/Assets ….									*17.4%*	*16.8%*	*14.6%*
Bank debt………………	**41,000**	44,000	**39,500**	43,500	**38,000**	43,000	**35,500**	41,500	**35,500**	41,500	44,500
Debt/EBITDA ………..	*1.9*	*2.1*	*1.9*	*2.1*	*1.8*	*2.0*	*1.6*	*1.9*	*1.6*	*1.9*	*2.2*
Gearing ratio[b)] ………..									*40.1%*	*48.2%*	*50.1%*
Cash Flow Statement Data:											
Distributions[a)] …………	**2,311**	2,319	**2,309**	2,320	**2,307**	2,316	**2,308**	2,316	**9,235**	9,271	9,275
Diluted per Unit ……..	*19.6¢*	*19.6¢*	*19.7¢*	*19.7¢*	*19.7¢*	*19.6¢*	*19.7¢*	*19.7¢*	*$0.79*	*$0.79*	*$0.79*
Payout ratio[3] ……….	*76%*	*57%*	*67%*	*58%*	*70%*	*64%*	*77%*	*67%*	*72%*	*61%*	*63%*
Unit purchases…………	**250**	—	**176**	49	**—**	49	**—**	146	**426**	244	—
Debt repayments……….	**500**	500	**1,500**	500	**1,500**	500	**2,500**	1,500	**6,000**	3,000	3,500

a) presented on a declared basis;

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

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

Review of Operations

Operations were approximately one-half (2012 – one-half) in Canada and one-half (2012 – one-half) in the United States ("Richards Packaging US"). Approximately one-third of sales are concentrated in Toronto, Montreal and Vancouver and one-third in Los Angeles, Reno and Portland.

Revenue increased by $2.9 million, or 6.5%, for the fourth quarter (2012 – $0.3 million, or 0.7%), and by $7.2 million, or 3.8%, for the year (2012 – $9.1 million, or 5.0%), from the same periods in 2012, respectively. During the fourth quarter, revenue increased on organic growth of $1.5 million, or 3.4%, (2012 – $1.0 million, or 2.2%) and by the translation impact of Richards Packaging US, with the Canadian dollar weakening 5.5¢ to U.S./Cdn. $0.95, of $1.4 million (2012 – decreased $0.7 million). For the year, the revenue increase was due to organic growth of $4.1 million, or 2.2%, (2012 – $8.1 million, or 4.4%) and the translation impact of Richards Packaging US of $3.1 million due to a U.S./Cdn. 2.9¢ weakening (2012 – decreased $1.0 million) to U.S./Cdn. $0.97.

($ thousands)	Qtr. 1		Qtr. 2		Qtr. 3		Qtr. 4		Calendar Year		
	2013	**2012**	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**	**2011**
Revenue……………………	**47,415**	48,222	**50,973**	49,219	**52,066**	48,735	**48,074**	45,157	**198,528**	191,333	182,263
Cost of products sold………	**39,986**	40,278	**42,894**	41,240	**44,147**	41,141	**40,810**	38,266	**167,837**	160,925	153,869
Gross profit…………………	**7,429**	7,944	**8,079**	7,979	**7,919**	7,594	**7,264**	6,891	**30,691**	30,408	28,394
	15.7%	*16.5%*	*15.8%*	*16.2%*	*15.2%*	*15.6%*	*15.1%*	*15.3%*	*15.5%*	*15.9%*	*15.6%*
Administrative expenses……	**2,265**	2,305	**2,250**	2,274	**2,250**	2,333	**2,245**	2,162	**9,010**	9,074	8,905
Foreign currency loss (gain)..	**28**	(6)	**(12)**	40	**2**	(126)	**52**	30	**70**	(62)	(20)
EBITDA[1]…………………	**5,136**	5,645	**5,841**	5,665	**5,667**	5,387	**4,967**	4,699	**21,611**	21,396	19,509
	10.8%	*11.7%*	*11.5%*	*11.5%*	*10.9%*	*11.1%*	*10.3%*	*10.4%*	*10.9%*	*11.2%*	*10.7%*
Amortization………………	**1,912**	1,895	**1,934**	1,921	**1,945**	1,938	**1,997**	2,003	**7,788**	7,757	7,625
Disputed duties………….	—	—	—	—	—	—	**(436)**	436	**(436)**	436	—
Patent defense legal costs…..	**432**	17	**267**	6	**536**	97	**55**	57	**1,290**	177	311
Financial expenses………….	**500**	649	**525**	726	**548**	639	**506**	533	**2,079**	2,547	2,651
Exchangeable shares…………	**982**	3,195	**41**	(1,358)	**974**	631	**760**	(482)	**2,757**	1,986	(580)
Share of income - Vision……	**(35)**	3	**(107)**	6	**(67)**	38	**(42)**	(143)	**(251)**	(96)	66
Income tax expense…………	**582**	621	**934**	669	**868**	706	**1,043**	532	**3,427**	2,528	1,338
Net Income (loss)…………	**763**	(735)	**2,247**	3,695	**863**	1,338	**1,084**	1,763	**4,957**	6,061	8,098

Cost of products sold (before amortization) increased $2.5 million for the fourth quarter or 6.7% (2012 – decreased $0.1 million, or 0.2%) and increased by $6.9 million for the year, or 4.3% (2012 – $7.1 million increase, or 4.6%) from the same periods in 2012, respectively. During the fourth quarter gross profit margins were down 0.2% (2012 – up 0.8%) from the same period in 2012, primarily due to the impact of $0.2 million in inventory write-downs (2012 – $nil.). For the year gross profit margins were down 0.3% (2012 – up 0.3%) due to the impact of $0.5 million of higher inventory write-downs. The volatility in the price of resins continues to not have a material impact on margins as a result of management's practice of immediately passing through increases and decreases to customers.

Administrative expenses (before amortization) increased $0.1 million, or 0.2% of sales, for the fourth quarter (2012 – increased $0.1 million, or 0.1% of sales) and decreased $0.1 million for the year (2012 – increased $0.2 million), over the same periods in 2012, respectively mainly due to the translation impact of expenses of Richards Packaging US.

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

EBITDA[1] increased $0.3 million for the fourth quarter (2012 – decreased $0.2 million) and increased $0.2 million for the year (2012 – increased $1.5 million), over the same periods in 2012, respectively. For the year the impact of the U.S./Cdn. 2.9¢ weakening resulted in an increase to EBITDA of $0.5 million (2012 – $0.1 million). As a percent of sales, EBITDA was at 10.3% for the fourth quarter and 10.9% for the year (2012 – 11.0%). Changes were due to the factors outlined above.

Amortization of $2.0 million for the fourth quarter and $7.8 million for the year was mainly comprised of $1.6 million for the quarter and $6.5 million for the year for intangible assets, which represents a charge for customer relationships and patents. The remaining amortization amounts consisted of plant and equipment depreciation of $0.4 million for the fourth quarter and $1.3 million for the year, which approximates the annual capital expenditure spending requirement.

Disputed duties resulted from the reversal of additional duties accrued in 2012 for product imported into Mexico. Management has successfully challenged the assessment and had the duties, penalties and interest overturned.

Patent defense legal costs increased $1.1 million on expenditures incurred to establish infringement on our Dispill patent, trademark and copyright in which the judge rendered his decision in favour of the defendants. Management does not expect to incur any additional costs associated with this case.

Financial expenses were flat for the fourth quarter from the same period in 2012, with lower term debt offset by higher credit card fees. For the year, financial expenses decreased $0.5 million due to 0.5% lower interest margining and $6.0 million in less term debt.

Exchangeable shares include the mark-to-market loss and the dividends paid on the exchangeable shares. The mark-to-market loss for the year reflects a unit price increase during the year of $1.98 to $10.52 per Unit ($1.9 million) in addition to the 6.55¢ per month dividend rate on the exchangeable shares ($0.8 million).

For the year taxes increased $0.9 million as current taxes increased $2.3 million, representing tax leakage predominately for the Richards Packaging US, initiation of Canadian tax and withholding tax offset by a deferred tax income increase of $1.4 million reflecting a lower availability of the loss carry forwards. Net deferred tax liabilities are $5.1 million, which include $4.4 million of customer relationships, patents and trademarks and $0.7 million of plant and equipment.

Net income for the fourth quarter was $1.1 million, and for the year was $5.0 million, which represented 10.2¢ and $0.46 per Unit on a diluted basis, respectively. A time-weighted average total of 10,676,491 Units and 1,057,337 exchangeable shares, exchangeable into Units on a one-for-one basis, were outstanding in 2013.

Distributable Cash Flow

The distributable cash flow[2] definition excludes changes in working capital and capital expenditures for expansion of the business, as they are necessary to drive organic growth and are expected to be financed by a $5.0 million revolving facility currently undrawn (2012 – nil drawn).

Distributable cash flow[2] for the fourth quarter at $3.0 million decreased $0.5 million in comparison to the same period in 2012 as higher EBITDA[1] was offset by higher income taxes due to the increase in earnings in Richards Packaging US, withholding taxes and taxes in Richards Canada. For the year distributable cash flow dropped $2.4 million with higher taxes of $2.3 million and patent defense costs of $1.1 million partially offset by higher EBITDA, lower interest expense and maintenance capital spending.

The monthly distribution of 6.55¢ per Unit represents an annual yield of 7.5% on a $10.52 price per Unit at December 31, 2013 and a payout ratio[3] of 72% (2012 – 61%). Based upon the year, 100% and 12% of the distributions will represent return of capital to Unitholders and exchangeable shareholders respectively.

($ thousands)	Qtr. 1		Qtr. 2		Qtr. 3		Qtr. 4		Calendar Year		
	2013	**2012**	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**	**2011**
Cash provided by											
operating activities……….	**5,185**	1,316	**4,981**	2,652	**3,810**	3,948	**6,434**	5,326	**20,410**	13,242	19,408
Dividends - Vision………….	**—**	—	**—**	—	**(189)**	—	**—**	—	**(189)**	—	—
Working capital changes…….	**(621)**	4,283	**(1,052)**	2,163	**167**	621	**(2,150)**	(2,009)	**(3,656)**	5,058	(844)
Income taxes payments…….	**140**	29	**1,645**	844	**1,343**	721	**1,064**	889	**4,192**	2,483	634
Disputed duties………….	**—**	—	**—**	—	**—**	—	**(436)**	436	**(436)**	436	—
Patent defense legal costs…..	**432**	17	**267**	6	**536**	97	**55**	57	**1,290**	177	311
EBITDA[1]	**5,136**	5,645	**5,841**	5,665	**5,667**	5,387	**4,967**	4,699	**21,611**	21,396	19,509
Patent defense legal costs…..	**432**	17	**267**	6	**536**	97	**55**	57	**1,290**	177	311
Interest[a)]…………………….	**500**	649	**525**	626	**548**	639	**506**	533	**2,079**	2,447	2,651
Dividends - Vision………….	**—**	—	**—**	—	**(189)**	—	**—**	—	**(189)**	—	—
Current income tax…………	**1,009**	658	**1,404**	742	**1,374**	813	**1,208**	488	**4,995**	2,701	1,053
Maintenance capital……….	**171**	246	**185**	314	**112**	206	**212**	188	**680**	954	695
Distributable cash flow[2] ..	**3,024**	4,075	**3,460**	3,977	**3,286**	3,632	**2,986**	3,433	**12,756**	15,117	14,799
Diluted per Unit …………	*25.7¢*	*34.5¢*	*29.5¢*	*33.7¢*	*28.0¢*	*30.8¢*	*25.5¢*	*29.1¢*	*$1.09*	*$1.28*	*$1.25*
Distributions…………….	**2,311**	2,319	**2,309**	2,320	**2,307**	2,316	**2,308**	2,316	**9,235**	9,271	9,275
Diluted per Unit ……….	*19.6¢*	*19.6¢*	*19.7¢*	*19.7¢*	*19.7¢*	*19.6¢*	*19.7¢*	*19.7¢*	*$0.79*	*$0.79*	*$0.79*
Payout ratio[3] ………….	*76%*	*57%*	*67%*	*58%*	*70%*	*64%*	*77%*	*67%*	*72%*	*61%*	*63%*
Free cash flow[2] ………….	**713**	1,756	**1,151**	1,657	**979**	1,316	**678**	1,117	**3,521**	5,846	5,524
Units outstanding *(average)*											
Diluted basis 000's ……….	**11,747**	11,803	**11,734**	11,801	**11,727**	11,791	**11,727**	11,785	**11,734**	11,795	11,803

a) financial expenses less bank refinancing fees

Liquidity and Financing

Cash flows from operating activities

Cash flows from operating activities increased $1.1 million for the fourth quarter and $7.2 million for the year, over the same periods in 2012. The increases were due primarily to lower working capital over the same periods in 2012 driven by lower inventory levels offset by higher cash outflows for income taxes and patent defense legal costs.

The financial structure of the Fund allows for maximum distributions of cash flow from operations to the Unitholders and exchangeable shareholders as outlined above in the distributable cash discussion. Actual distributions paid during the year were $9.2 million with an additional $0.8 million declared for December, which was paid January 14th.

Free Cash Flow Deployment

($ millions)	**2011**	**2012**	**2013**
Free Cash Flow	5.8	5.6	3.5
Patent Defence Costs	0.3	0.2	1.3
Working Capital	1.7	1.9	(4.6)
Expansion Capex	0.3	0.3	0.4
Unit Buyback	—	0.2	0.4
Debt Repayment	3.5	3.0	6.0

Normal Course Issuer Bid

On March 13, 2013, the Fund initiated a normal course issuer bid to purchase up to 200,000 Units prior to March 12, 2014. During the year 47,800 units were purchased at an average price of $8.92 per Unit. On March 13, 2014, the Fund will reinstate a normal course issuer bid to purchase up to 200,000 Units prior to March 12, 2015.

Current income taxes

The current income tax expense for the year was $5.0 million (2012 – $2.7 million), made up of current income tax for the Richards Packaging US, withholding taxes and taxes in Richards Canada.

Capital expenditures

Capital expenditures for the year were $1.1 million (2012 – $1.3 million), of which $0.4 million (2012 – $0.3 million) was on account of expansion capital and $0.7 million on account of maintenance capital (2012 – $1.0 million). Expenditures classified as maintenance capital are mainly comprised of refurbishment of moulds for replacement packaging driven by customer marketing programs. Expansion capital expenditures were mainly incurred on new equipment and moulds for new customer programs.

Financing activities and instruments

Significant working capital reduction and free cash flow for the year were deployed to pay down debt. The lower leverage continues to keep bank margining down resulting in savings of $0.1 million per year. Future debt reductions will provide financing flexibility for our ongoing acquisition program. The remaining free cash flow is more permanent in nature due to our distribution policy and is used to fund working capital for organic growth.

Credit facilities include a $35.5 million term loan (2012 – $41.5 million) with maturity on May 31, 2015 and up to $5.0 million in revolving debt to fund working capital expansion. The term loan facility bears interest at BA's plus a premium of 1.55% to 1.80% (2012 – 1.55% to 1.80%) or at the prime rate plus a premium of 0.55% to 0.80% (2012 – 0.55% to 0.80%). During the year, $6.0 million of term debt was repaid (2012 – $3.0 million).

On May 18, 2012, Richards Packaging extended the term and revolving credit facilities to May 31, 2015 with the interest premium over BA's, or prime rate, lowered by 0.95% and expensed $0.1 million of associated fees. The credit facilities are subject to a number of covenants including the leverage ratio which was to maintain debt less than 2.75 times the trailing twelve months EBITDA[1]. As at December 31, 2013, our pro forma leverage ratio was 1.60 (2012 – 1.91). Combined with cash flow from operations, management believes that adequate financing will be available for the foreseeable future[4].

Commitments and contractual obligations

A competitor had launched a product in July 2006 that Richards Packaging claimed infringed our Dispill patent and trademark. The patents and trademarks expenditures reflect management's accrual to pay legal costs in connection with the judge rendering his decision in favour of the defendants.

($ millions)	**Total**	**< 1 yr.**	**< 3 yrs.**	**< 5 yrs.**	**Beyond**
Bank debt	35.5		35.5		
Previous shareholder	0.8	0.8			
Patents and trademarks	0.5	0.5			
Annual bonus plans	0.7	0.7			
Operating leases	16.5	4.1	6.2	4.2	2.0
	54.0	6.1	41.7	4.2	2.0

Outlook[4]

Management believes that financial performance is on track to meet ongoing requirements for working capital, capital expenditures and to sustain monthly distributions to Unitholders at the newly established level through 2014.

Management expects revenue growth to return to the industry growth average of 1-3%. The impact of exchange translation for 2014 is expected to be over $8 million based on current exchange rates at U.S./Cdn.$0.90.

EBITDA[1] for the fourth quarter was $5.0 million and $21.6 million for the year, and is expected to be maintained at levels of 11% of revenue. For the 2014 year, translation is expected to impact EBITDA by $0.9 million at current exchange rates.

Interest rates are expected to remain at historically low levels for 2014.

The current income tax expense is expected to increase by $1.0 million in 2014 due to taxes in Richards Canada, along with additional tax leakage in Richards Packaging US.

Distributable cash flow[2] sensitivity to foreign currency fluctuations is $0.1 million for every U.S./Cdn. 1¢ movement.

Maintenance capital will continue to be funded by cash flow from operations and is expected to be $0.8 million in 2014. Expansion capital is expected to be in the order of $1 to $2 million cumulatively over the next few years to support the launch of new marketing programs by our customers, although no major expenditures are pending. These expenditures will be funded by free cash flow[2].

Cash and cash equivalents on hand of $2.6 million at year end will be deployed to pay taxes payable of $0.7 million, pay bonuses payable of $0.7 million, pay patent defense costs payable of $0.5 million and to fund the working capital requirements for revenue growth.

Distributable cash flow from Richards Packaging US and the current tax profile of Richards Canada are expected to allow for a full return of capital to Unitholders. For 2014, surplus distributable cash is expected to be deployed to pay down debt, purchase units opportunistically under the normal course issuer bid and/or fund acquisitions.

Risks and Uncertainties

Business risks

Investment in Units involves risks inherent in the ordinary course of business including: sustainability of customer and supplier relationships, financial stability of customers, lack of written customer and supplier agreements, competition from other packaging companies, the extent and duration of an economic downturn, 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 2013 Annual Information Form dated March 7, 2014.

Liquidity Risk

The ability to make scheduled payments of interest or to refinance will depend on leverage and future cash flow, which is subject to operational performance, prevailing economic conditions, exchange rate fluctuations, interest rate levels, and financial, competitive and other factors, many of which are beyond Richards Packaging's control. These factors might inhibit refinancing the debt at all, or on favourable terms. In addition, the credit facilities contain restrictive covenants that limit the discretion of management with respect to certain business matters and financial covenants that require Richards Packaging to meet certain financial ratios and financial condition tests. Failure to comply with obligations in the credit facilities could result in an event of default which, if not cured or waived, could permit acceleration of the relevant indebtedness. If the borrowings under the credit facilities were to be accelerated, there can be no assurance that assets on hand would be sufficient to repay in full that indebtedness. Richards Packaging's approach is to ensure sufficient liquidity to meet its liabilities when due. Cash levels are monitored daily to ensure sufficient continuity of funding.

Transactions with Related Parties

Two facilities were leased in 2013 from an officer of Richards Packaging. Richards Packaging utilizes all of the production capability of Vision Plastics Inc., of which 50% is owned by the plant manager and 50% by Richards Packaging. All related party transactions are at rates that would be charged by arms-length parties.

Outstanding Share Data

At March 7, 2014, the Fund had 10,702,778 Units and Holdings had 1,024,435 exchangeable shares outstanding, respectively. See note 15 of the attached consolidated financial statements for further discussion on the terms of the Units and exchangeable shares.

Critical Accounting Estimates

Preparation of the consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions which affect the amounts reported and disclosure of contingent amounts for assets and liabilities as at December 31, 2013 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, 2013 is sufficient to cover risks inherent in outstanding receivables.

Inventory obsolescence

Management monitors future demand for its inventory on a product-by-product basis, inventory aging and prevailing demand in local markets to record an allowance for obsolescence. Given the current adverse economic climate, management's analysis resulted in a $1.2 million recognition of expense through inventory write down for the year (2012 – $0.7 million). Based upon this review, management believes the obsolescence provision is adequate to cover risks inherent in inventory on hand as at December 31, 2013.

Intangible assets

Intangible assets have been recognized in connection with various acquisitions valued at $7.6 million as of December 31, 2013 pertaining to the future customer relationships that are not under long-term contract. The basis of valuation assumed that the margin percent would remain constant and the duration of these relationships would be impacted by a retention rate of approximately 90% per year. The customer relationship intangible and associated $2.8 million future income tax liability as at December 31, 2013 will be amortized to income over 15 years from the date of acquisition. In addition, patent and trademark intangible assets of $4.5 million and an associated $1.6 million future income tax liability have been recorded. Although previously recognized patent and customer relationship intangible assets affect net income, they do not impact distributable cash flow[2].

Goodwill

Goodwill represents the excess purchase price of acquired businesses over the estimated fair value of the net assets acquired. Goodwill is not amortized but is reviewed for impairment annually or more frequently if impairment indicators arise. Although the Unit price was $10.52 as at December 31, 2013 (2012 – $8.54), 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.

New Accounting Pronouncements

The Fund adopted the amendments to IAS 1, *Presentation of Financial Statements,* effective January 1, 2013 requiring the identification of other comprehensive income (loss) items that will require recognition to net income due to future events.

Disclosure Controls and Internal Controls over Financial Reporting

The Fund has established and maintains disclosure controls and procedures as well as internal controls over financial reporting. Richards Packaging's Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of the disclosure controls and procedures as well as the design and operating effectiveness of internal controls over financial reporting as of December 31, 2013 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, 2013 and there have been no changes in the internal controls over financial reporting during the year ended December 31, 2013 that have materially affected, or are reasonably likely to materially affect, its internal controls over financial reporting.

Additional Information

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

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1 *Management defines EBITDA as earnings before amortization, financial expenses, exceptional items (disputed duties and patent defense costs), unrealized losses and dividends on exchangeable shares, share of income - Vision and taxes. EBITDA is the same as profit from operations as outlined in the annual financial statements after adding back amortization and patent defense costs. The definition was changed in 2013 to exclude disputed duties and as a result, relevant comparative amounts have been recalculated to conform to the presentation. Management believes that in addition to net income, EBITDA is a useful supplemental measure for investors of earnings available for distribution prior to debt service, capital expenditures and taxes. Management uses this measure as a starting point in the determination of earnings available for distribution to Unitholders and exchangeable shareholders. In addition, EBITDA is intended to provide additional information on the operating performance. This earnings measure should not be construed as an alternative to net income or as an alternative to cash flows from operating, investing and financing activities as a measure of liquidity and cash flows. EBITDA does not have a standardized meaning prescribed by IFRS and therefore the method of calculating EBITDA may not be comparable to similar measures presented by other companies.*

2 *Management defines distributable cash flow, in accordance with Richards Packaging's credit agreement, as EBITDA less extraordinary items, interest, cash income tax expense and maintenance capital expenditures. Free cash flow is distributable cash flow less distributions. The objective of presenting these measures is to calculate the amount which is available for distribution to Unitholders or exchangeable shareholders and to determine the amount available to fund increases in working capital or expansion capital. Investors are cautioned that distributable cash flow should not be construed as an alternative to cash flow from operating, investing and financing activities as a measure of the liquidity and cash flows. Distributable cash flow does not have a standardized meaning prescribed by IFRS and therefore the method of calculating distributable cash flow may not be comparable to similar measures presented by other companies.*

3 *Management defines payout ratio as distributions and dividends declared over distributable cash flow*[2]*. The objective of presenting this measure is to calculate the percentage of actual distributions in comparison to the amount available for distribution. Payout ratio does not have a standardized meaning prescribed by IFRS. The method of calculating the payout ratio may not be comparable to similar measures presented by other companies.*

4 *The Report to Unitholders and this MD&A contains forward-looking information within the meaning of applicable securities laws. The forward-looking information reflects management's current beliefs and expectations regarding the future growth, results of operations, performance and business prospects and opportunities of the Fund and Richards Packaging. We use words such as "may", "will", "should", "anticipate", "plan", "expect", "believe", "predict", "estimate" and similar terminology to identify forward-looking information. It is based on assumptions, estimates and*

analysis made by us in light of our experience and our perception of trends, current conditions and expected developments, as well as other factors we believe to be reasonable and relevant in the circumstances. Forward-looking information involves significant known and unknown risks, uncertainties and other factors which may cause our actual results, performance or achievements to be materially different from those predicted, expressed or implied by the forward-looking information. Readers should not place undue reliance on forward-looking information as a number of factors could cause actual events, results and prospects to differ materially from those expressed in or implied by the forward-looking information. The risks and uncertainties include, among other things, changes in customer and supplier relationships, the extent and duration of the worldwide recession and the impact on order volumes and pricing, competition in the industry, inventory obsolescence, trade risks in respect of foreign suppliers, the ability to finance additional acquisitions and to successfully integrate the acquired businesses, fluctuations in raw material prices, fluctuations in foreign exchange and interest rates, liability claims, reliance on key personnel, compliance with environmental, trade and other laws, changes to applicable tax laws, as well as other risks and uncertainties, as more fully described herein under "Risks and Uncertainties" and in other reports and filings made by us with securities regulatory authorities and available at www.sedar.com. While management believes that the expectations expressed and the assumptions underlying same are reasonable, there can be no assurance that such expectations and assumptions will prove to be correct. In evaluating forward-looking information, readers should carefully consider the foregoing factors and various other factors which could cause actual results or events to differ materially from those indicated in the forward-looking information. Neither the Fund nor Richards Packaging assumes any obligation to publicly update or revise any such assumptions or any of the forward-looking information contained herein to reflect subsequent information, events, developments or changes in risk factors.