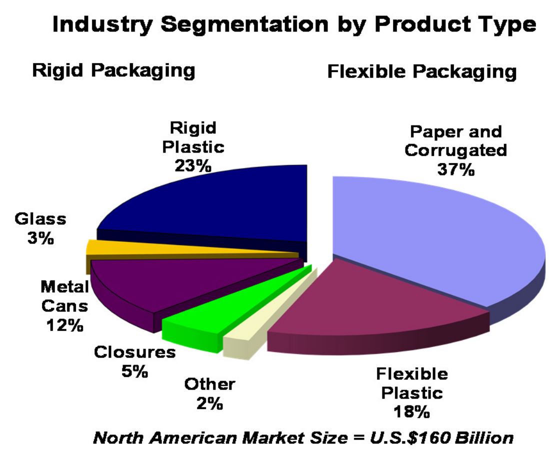
MANAGEMENT'S DISCUSSION AND ANALYSIS

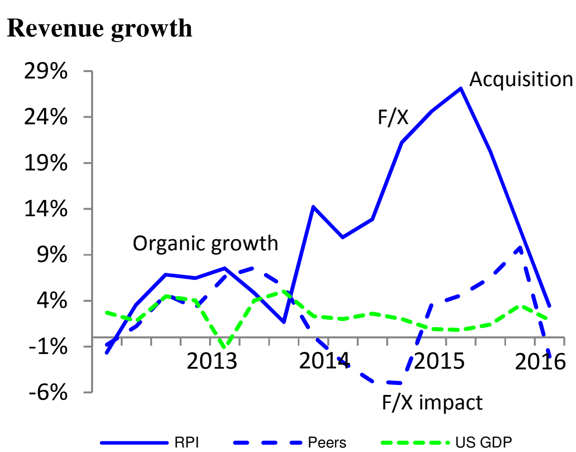
March 2, 2017

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, 2015, the quarterly reports for the periods ended March 31, June 30 and September 30, 2016 and the Annual Information Form dated March 2, 2017. 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

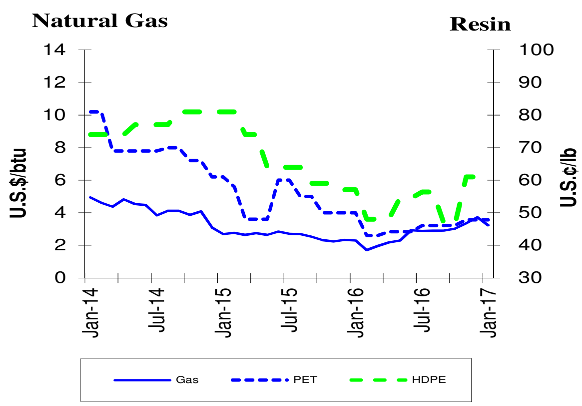
Packaging is pervasive, as almost all products are delivered in some form of packaging. The properties of packaging fulfils not only the practical, transportability, protection functions and shelf life, but also serves to differentiate products and communicate branding messages such as quality, safety 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 recovered in 2016 up 5% with GDP expansion.





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 2016, there were over 294 acquisitions in the global packaging industry, up over the 269 acquisitions in 2015 at a median multiple of 8.0 times EBITDA[1] (2015 – 8.2). During 2016, the top 20 companies continued to spend on capital at the cautious rate of 5% 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 2016, HDPE and PET resin prices began to converge with natural gas, their main feedstock with prices dropping in line. 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[2] at 2%, 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 14% overall for 2016.



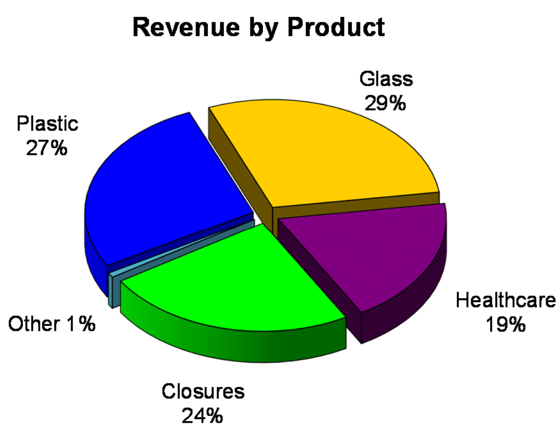
PET – Polyethylene terephthalate; HDPE – High Density Polyethylene

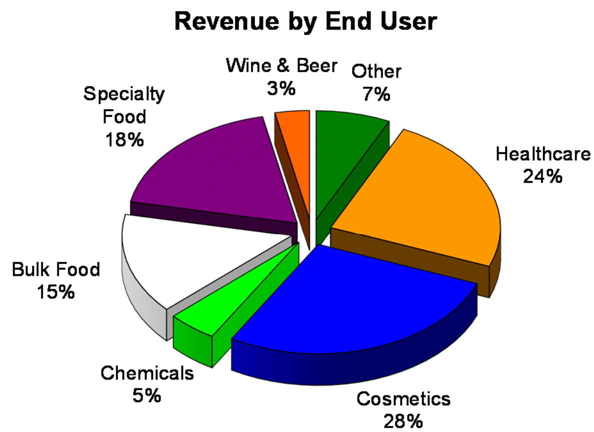
Description of the Business and Fund Profile

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 60% 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.

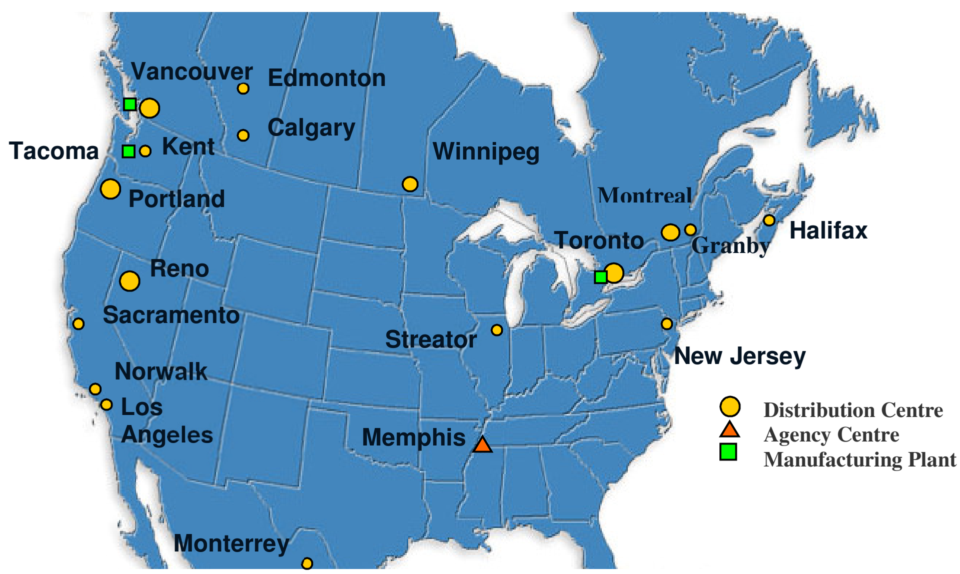
Richards Packaging Income Fund (the "Fund") is a limited purpose, open-ended trust created on February 26, 2004 to invest in packaging distribution businesses throughout North America. The Fund commenced operations on April 7, 2004 when the Fund completed an initial public offering of 8,569,913 trust units of the Fund ("Units") at a price of $10 per Unit and indirectly purchased 96% of the securities of Richards Packaging Inc. The remaining 4% represented the exchangeable shareholder ownership which has subsequently been re-characterized as debt.

Richards Packaging serves a wide customer base that is comprised of approximately 14,000 regional food, beverage, cosmetic, specialty chemical, pharmaceutical, healthcare and other companies (2015 – 13,300). 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 10% of the total revenues (2015 – 13%). 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.



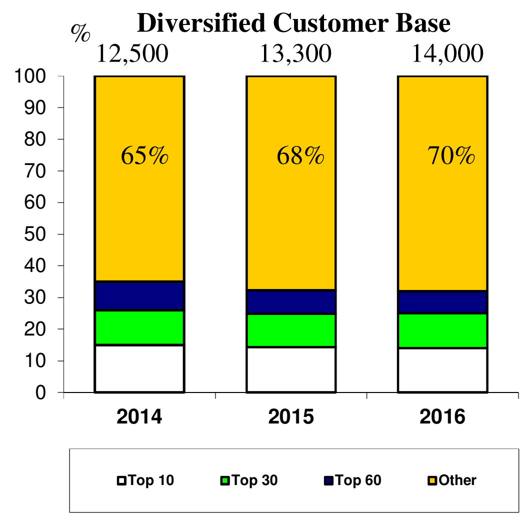


Richards Packaging Locations



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 beer markets,
- Being the leading supplier of sterile IV, chemo and oral drug packaging and dispensing systems to health care service providers in Canada,
- Being the largest distributor of surplus packaging, and
- Being the only major distributor with dedicated in-house plastics manufacturing capability.



During 2016, 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 2016 by $6 million (2015 –$6 million) in addition to the $31 million growth in small customers (2015 – $24 million) as they experienced a growth rate of 19% per annum (2015 – 18%).

Impact of Changes in Financial Markets

Precarious global economic markets reflect struggling GDP growth, collapsing commodity prices, currency wars and divergent United States monetary policy from the rest of the first world. Policy shifts from austerity to government deficit spending and tax rate increases will also impact currency valuations and GDP growth.

Credit Markets and Interest rates

The forecast for US Federal Reserve is to raise interest rates 3 times within the next year while The Bank of Canada is not expected to move in the same time frame. Rates increased slightly with short term BA's at 0.9% (2015 – 0.8%).

Foreign Exchange

Exchange rates averaged U.S./Cdn. $0.75 leading to an impact on both revenue and EBITDA of $6.3 million and $0.8 million, respectively in the year. Volatility continued with plunging oil prices in the first quarter 2016 and the exchange rates dropping to U.S./Cdn. $0.72 but both experienced partial recoveries for the remainder of the year.

($ millions)	**2014**	**2015**	**2016**
INTEREST RATES	*1.2%*	*0.8%*	*0.9%*
Impact on Interest	—	0.1	—
F/X - U.S./Cdn.$	*0.91*	*0.78*	***0.75***
Impact on:			
Revenue	8.0	19.8	**6.3**
EBITDA	1.7	3.2	**0.8**

Gross Domestic Product

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 2016. In Canada, GDP grew 0.7% in the first quarter but then contracted 0.3% in the second quarter before bouncing back to 0.9% in the third and 2.6% for the fourth quarter. The United States GDP grew 0.8%, 1.4%, 3.5% and 1.9% in each of the respective quarters. Our US operations followed the United States' pattern however our Canadian operations outperformed in Canada.

Highlights and Selected Financial Information

The MD&A covers the three and 12 months ended December 31, 2016 and 2015 (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 15% due to the Healthmark acquisition, 4.2% organic growth and 2.5% from a 2.7¢ U.S./Cdn. drop,
- EBITDA[1] up $7.9 mil. representing 13% of sales or a 24.2% return on net operating assets; foreign currency contributing $0.8 mil.,
- Exceptional gains reflect the proceeds of disposal on sale of manufacturing equipment and insurance proceeds for damaged goods,
- Healthmark sellers elected to accelerate contingent consideration based upon 2016 year results with final adjustment of $8.4 mil. ($10.4 mil. payable on March 31st, 2017),
- Current income taxes up $2.4 mil. in line with higher taxable income,
- Net income down $2.6 mil. due primarily to the contingent consideration revaluation, mark-to-market losses on exchangeable shares and income taxes, partially offset by higher EBITDA and exceptional gains,
- Working capital decrease of $6.3 mil. – $10.5 mil. decrease in inventory offset by $3.1 mil. increase in receivables (44 days sales outstanding) and $0.9 mil. increase in prepaids,
- Cash balance of $13.3 mil. accumulated to settle contingent consideration and annual bonuses,
- Term debt repayments of $5.0 mil., leverage down to 1.1x,
- Monthly distributions increased 2.0¢ to 9.35¢ per Unit in March 2016 to yield a 4.5% return (@$24.79/Unit – Dec 31st),
- Buy back of $0.3 mil., or 16,000 Units (@ $18.05/Unit), under the normal course issuer bid, and
- Distributable cash flow[2] increased by 50¢ to $2.02 per Unit yielding a payout ratio[3] of 53%.

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 funding needed for potential acquisitions, the current low interest and foreign exchange rates and the cash needs of operations.

($ thousands)	Qtr. 1		Qtr. 2		Qtr. 3		Qtr. 4		Calendar Year		
	2016	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2014**
Income Statement Data:											
Revenue	**71,879**	56,329	**72,532**	60,304	**71,794**	64,174	**70,755**	68,623	**286,960**	249,430	212,285
EBITDA[1]	**9,356**	6,467	**9,606**	7,143	**9,478**	7,737	**9,321**	8,535	**37,761**	29,882	23,797
Diluted per Unit	*80.0¢*	*55.2¢*	*82.2¢*	*60.9¢*	*81.1¢*	*66.0¢*	*79.7¢*	*72.8¢*	*$3.23*	*$2.55*	*$2.03*
Net income	**3,300**	897	**-1,133**	3,408	**4,147**	4,847	**1,590**	1,353	**7,904**	10,505	8,022
Diluted per Unit [c)]	*30.4¢*	*8.4¢*	*-10.4¢*	*31.6¢*	*34.1¢*	*38.1¢*	*14.6¢*	*12.4¢*	*$0.73*	*$0.97*	*$0.75*
Financial Position Data:											
Working capital[d)]	**56,221**	46,284	**53,298**	48,735	**54,706**	51,318	**53,871**	57,802	**53,871**	57,802	42,989
Net operating assets	**158,422**	136,208	**155,136**	137,425	**156,434**	144,099	**156,114**	163,097	**156,114**	163,097	128,574
EBITDA/Assets									*24.2%*	*18.3%*	*18.5%*
Bank debt	**45,899**	32,435	**43,915**	33,307	**43,829**	32,448	**41,854**	46,883	**41,854**	46,883	32,428
Debt/EBITDA	*1.4*	*1.3*	*1.3*	*1.3*	*1.2*	*1.1*	*1.1*	*1.5*	*1.1*	*1.5*	*1.3*
Gearing ratio [b)]									*26.8%*	*28.7%*	*25.2%*
Cash Flow Statement Data:											
Distributions [a)]	**2,608**	2,604	**3,307**	2,602	**3,309**	2,609	**3,312**	2,609	**12,536**	10,424	10,175
Diluted per Unit	*22.4¢*	*22.3¢*	*28.3¢*	*22.2¢*	*28.3¢*	*22.3¢*	*28.3¢*	*33.3¢*	*$1.07*	*$0.89*	*$0.87*
Payout ratio [3]	*45%*	*71%*	*54%*	*59%*	*56%*	*56%*	*57%*	*51%*	*53%*	*58%*	*71%*
Free cash flow	**3,126**	1,074	**2,850**	1,785	**2,598**	2,040	**2,539**	2,523	**11,113**	7,422	4,247
Diluted per Unit	*26.7¢*	*9.2¢*	*24.4¢*	*15.2¢*	*22.2¢*	*17.4¢*	*21.7¢*	*21.5¢*	*$0.95*	*$0.63*	*$0.36*
Unit purchases	**289**	—	—	—	—	—	—	209	289	209	88
Debt repayments	**1,000**	—	**2,000**	(866)	—	866	**2,000**	2,257	**5,000**	2,257	3,000

a) presented on a declared basis;
b) calculated as the percentage of bank debt to net operating assets
c) anti-dilutive result reverts back to basic income per Unit
d) restated to include contingent consideration

Review of Operations

Operations were one-half in the United States ("Richards Packaging US") and one-half in Canada. Forty percent of sales are concentrated in Los Angeles, Reno and Portland and 40% in Toronto, Montreal, Winnipeg and Vancouver.

Revenue increased by $2.1 million, or 3.1% for the fourth quarter (2015 – $6.8 million, or 12.3% excluding $6.9 million of revenue from Healthmark), and by $37.5 million, or 15.0% for the year, (2015 – $37.1 million, or 17.5%), from the same periods in 2015, respectively. During the fourth quarter, revenue increased on organic growth of $2.1 million, or 3.1%, (2015 – $1.4 million, or 2.5%) back down to industry norms. There was minimal translation impact of Richards Packaging US, with the Canadian dollar staying at U.S./Cdn. $0.75. For the year, the revenue increase was due to the Healthmark acquisition and organic growth of $31.2 million, or 12.5%, (2015 – $17.4 million, or 7.9%) and the translation impact of Richards Packaging US of $6.3 million due to a U.S./Cdn. 2.7¢ weakening to U.S./Cdn. $0.75 (2015 – $19.8 million).

($ thousands)	**Qtr. 1**		**Qtr. 2**		**Qtr. 3**		**Qtr. 4**		**Calendar Year**		
	2016	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2014**
Revenue	**71,879**	56,329	**72,532**	60,304	**71,794**	64,174	**70,755**	68,623	**286,960**	249,430	212,285
Cost of products sold	**59,477**	47,262	**60,090**	50,479	**59,242**	53,326	**58,654**	57,041	**237,463**	208,108	178,934
Gross profit	**12,402**	9,067	**12,442**	9,825	**12,552**	10,848	**12,101**	11,582	**49,497**	41,322	33,351
	17.3%	*16.1%*	*17.2%*	*16.3%*	*17.5%*	*16.9%*	*17.1%*	*16.9%*	*17.2%*	*16.6%*	*15.7%*
Administrative expenses	**3,016**	2,538	**2,824**	2,648	**2,893**	3,022	**2,869**	3,054	**11,602**	11,262	9,529
Foreign currency loss	**30**	62	**12**	34	**181**	89	**(89)**	(7)	**134**	178	25
EBITDA[1]	**9,356**	6,467	**9,606**	7,143	**9,478**	7,737	**9,321**	8,535	**37,761**	29,882	23,797
	13.0%	*11.5%*	*13.2%*	*11.8%*	*13.2%*	*12.1%*	*13.2%*	*12.4%*	*13.2%*	*12.0%*	*11.2%*
Amortization	**999**	694	**968**	703	**991**	689	**973**	1,046	**3,931**	3,132	3,986
Financial expenses	**640**	499	**652**	538	**665**	525	**591**	652	**2,548**	2,214	2,042
Exceptional gains	—	—	—	—	**(259)**	—	**(755)**	—	**(1,014)**	—	—
Contingent consideration	—	—	**4,000**	—	**1,500**	—	**2,939**	—	**8,439**	—	—
Exchangeable shares	**1,883**	2,681	**2,787**	750	**(156)**	(382)	**1,361**	3,091	**5,875**	6,140	3,997
Share of income - Vision	**(7)**	(27)	**(35)**	(27)	**(26)**	(52)	**(10)**	(28)	**(78)**	(134)	(98)
Income tax expense	**2,541**	1,723	**2,367**	1,771	**2,616**	2,110	**2,632**	2,421	**10,156**	8,025	5,848
Net Income (loss)	**3,300**	897	**(1,133)**	3,408	**4,147**	4,847	**1,590**	1,353	**7,904**	10,505	8,022

Cost of products sold (before amortization) increased $1.6 million for the fourth quarter or 2.8% (2015 –$10.7 million, or 23.2%) and increased by $29.3 million for the year, or 14.1% (2015 – $29.2 million, or 16.3%) from the same periods in 2015, respectively. During the fourth quarter gross profit margins were up 0.2% (2015 – 1.3%) from the same period in 2015, primarily due to the increased volumes. For the year, gross profit margins were up 0.6% (2015 – 0.9%) as higher volumes absorbed the impact of $2.7 million of 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) decreased $0.2 million for the fourth quarter (2015 –$0.7 million, or 0.2% of sales) and increased $0.3 million for the year (2015 – $1.7 million), over the same periods in 2015, respectively mainly due to the Healthmark acquisition and translation impact of expenses of Richards Packaging US.

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

EBITDA[1] increased $0.8 million for the fourth quarter (2015 – $2.3 million) and $7.9 million for the year (2015 – $6.1 million), over the same periods in 2015, respectively. For the year the impact of the U.S./Cdn. 2.7¢ weakening resulted in an increase to EBITDA of $0.8 million (2015 – $3.2 million). As a percent of sales, EBITDA was at 13.2% for the fourth quarter and for the year (2015 – 12.0%).

Amortization of $1.0 million for the fourth quarter and $3.9 million for the year was mainly comprised of $0.6 million for the quarter and $2.6 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 $0.3 million for the fourth quarter and $1.4 million for the year, which is approximately equal to the annual capital expenditure spending requirement.

Financial expenses decreased $0.1 million for the fourth quarter from the same period in 2015 on lower credit card fees and increased $0.3 million for the year from the same period in 2015, with higher term debt outstanding due to the Healthmark acquisition.

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 $5.61 to $24.79 per Unit ($4.8 million) in addition to the monthly dividend on the exchangeable shares ($1.0 million) which was increased in March 2016 by 2.0¢ per Unit to 9.35¢ per Unit.

For the year, taxes increased $2.1 million as current taxes increased $2.4 million offset by higher deferred tax income of $0.3 million reflecting increased intangible amortization. Net deferred tax liabilities are $6.2 million, which include $5.7 million of customer relationships, patents and trademarks, $0.7 million of plant and equipment net of $0.2 million of working capital.

Net income for the fourth quarter was $1.6 million, and for the year was $7.9 million, which represented 14.4¢ and $0.73 per Unit on a diluted basis, respectively. A time-weighted average total of 10,846,578 Units and 846,435 exchangeable shares, exchangeable into Units on a one-for-one basis, were outstanding in 2016.

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 (2015 – nil drawn).

Distributable cash flow[2] for the fourth quarter at $5.9 million increased $0.7 million in comparison to the same period in 2015 as higher EBITDA[1] was offset by higher income taxes due to the increase in earnings. For the year distributable cash flow increased $5.8 million with higher EBITDA of $7.9 million and lower maintenance capital of $0.7 million was partially offset by $2.4 million of higher taxes, and higher interest of $0.4 million.

The monthly distribution increased 2.0¢ in April 2016 to 9.35¢ per Unit represents an annual yield of 4.5% on a $24.79 price per Unit at December 31, 2016 and a payout ratio[3] of 53% (2015 – 58%). Based upon the year, 100% of the distributions will represent return of capital to Unitholders while the exchangeable shareholders' dividends will be fully taxable.

($ thousands)	Qtr. 1		Qtr. 2		Qtr. 3		Qtr. 4		Calendar Year		
	2016	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2014**
Cash provided by											
operating activities……….	**7,798**	2,618	**6,285**	2,237	**7,809**	5,292	**12,729**	4,623	**34,621**	14,770	14,660
Dividends - Vision………….	**—**	—	**—**	—	**—**	(50)	**(50)**	—	**(50)**	(50)	(204)
Exceptional gains…………....	**—**	—	**—**	—	**(259)**	—	**(755)**	—	**(1,014)**	—	—
Working capital changes…….	**150**	3,007	**(1,085)**	1,433	**(567)**	(154)	**(4,768)**	1,520	**(6,270)**	5,806	3,122
Income tax payments……….	**1,408**	842	**4,406**	3,473	**2,495**	2,649	**2,165**	2,392	**10,474**	9,356	6,219
EBITDA[1]	**9,356**	6,467	**9,606**	7,143	**9,478**	7,737	**9,321**	8,535	**37,761**	29,882	23,797
Interest [a)]……………………	**640**	499	**652**	531	**665**	525	**591**	628	**2,548**	2,183	2,029
Dividends - Vision………….	**—**	—	**—**	—	**—**	(50)	**(50)**	—	**(50)**	(50)	(204)
Current income tax…………	**2,787**	1,864	**2,587**	1,972	**2,778**	2,212	**2,819**	2,560	**10,971**	8,608	6,822
Maintenance capital………..	**195**	426	**210**	253	**128**	401	**110**	215	**643**	1,295	728
Distributable cash flow[2] ..	**5,734**	3,678	**6,157**	4,387	**5,907**	4,649	**5,851**	5,132	**23,649**	17,846	14,422
Diluted per Unit …………	*49.0¢*	*31.4¢*	*52.7¢*	*37.4¢*	*50.5¢*	*39.7¢*	*50.0¢*	*43.8¢*	*$2.02*	*$1.52*	*$1.23*
Distributions…………….	**2,608**	2,604	**3,307**	2,602	**3,309**	2,609	**3,312**	2,609	**12,536**	10,424	10,175
Diluted per Unit ……….	*22.4¢*	*22.3¢*	*28.3¢*	*22.2¢*	*28.3¢*	*22.3¢*	*28.3¢*	*22.3¢*	*$1.07*	*$0.89*	*$0.87*
Payout ratio [3] …………..	*45%*	*71%*	*54%*	*59%*	*56%*	*56%*	*57%*	*51%*	*53%*	*58%*	*71%*
Free cash flow[2] ………….	**3,126**	1,074	**2,850**	1,785	**2,598**	2,040	**2,539**	2,523	**11,113**	7,422	4,247
Units outstanding *(average)*											
Diluted basis 000's ……….	**11,693**	11,720	**11,693**	11,720	**11,693**	11,720	**11,693**	11,717	**11,693**	11,719	11,725

a) financial expenses less bank refinancing fees

Liquidity and Financing

Cash flows from operating activities

Cash flows from operating activities increased $8.1 million for the fourth quarter and increased $19.9 million for the year, over the same periods in 2015. The changes were due primarily to higher EBITDA[1] and lower working capital over the same periods in 2015 driven by lower inventory levels along with one time exceptional gains.

Free Cash Flow Deployment

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 $12.5 million with an additional $1.1 million declared for December, which was paid January 13th.

($ millions)	**2014**	**2015**	**2016**
Free Cash Flow	4.2	7.4	**11.1**
Cash	(2.3)	0.5	**11.2**
Working Capital	3.1	5.8	**(6.3)**
Expansion Capex	0.3	0.4	**0.9**
Unit Buyback	0.1	0.2	**0.3**
Debt Repayment	3.0	0.5	**5.0**

Normal Course Issuer Bid

On March 14, 2016, the Fund initiated a normal course issuer bid to purchase up to 200,000 Units prior to March 13, 2017. During the year 16,000 units were purchased at an average price of $18.05 per Unit. On March 14, 2017, the Fund will reinstate a normal course issuer bid to purchase up to 200,000 Units prior to March 13, 2018.

Current income taxes

The current income tax expense for the year was $11.0 million (2015 – $8.6 million) and includes $0.5 million of withholding taxes on dividends received from Richards Packaging US (2015 – $0.5 million).

Capital expenditures

Capital expenditures for the year were $1.5 million (2015 – $1.7 million), of which $0.9 million (2015 – $0.4 million) was on account of expansion capital primarily for the addition of manufacturing equipment for new customer programs. Maintenance capital expenditures of $0.6 million (2015 – $1.3 million) were mainly comprised of the refurbishment of moulds.

Acquisition

On October 1, 2015 Richards Packaging acquired all the outstanding shares of Healthmark Services Ltd., a leading Canadian provider of sterile IV, chemo and oral drug packaging and dispensing systems to the health care industry, for an aggregate purchase price of $18.8 million, subject to adjustment depending on future earnings. Financing was by way of a draw of $16.8 million on the debt facilities and the recognition of the contingent liability. The revolver was paid down on close with cash acquired of $1.3 million. Contingent consideration was estimated at $2,000 on December 31, 2015 and was based on future earnings for 2016 or 2017 without limitation, and is payable 90 days after the year then ended. The sellers have elected to be paid based on the 2016 year, therefore, an additional $8,439 of contingent consideration revaluation is reflected in the Statement of income based on the estimate as at December 31, 2016 and will be paid on March 31, 2017.

Financing activities and instruments

Free cash flow for the year was deployed to invest in working capital, pay down debt and purchase Units under the normal course issuer bid. The lower leverage continues to keep bank margining down and 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 $42.0 million term loan (2015 – $47.0 million) with maturity on September 30, 2019 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 1.25% to 1.80% (2015 – 1.25% to 1.80%) or at the prime rate plus a premium of 0.25% to 0.80% (2015 – 0.25% to 0.80%). Term debt of $5.0 million was repaid in the year (2015 – $0.5 million). During the 2015 year, the revolver was drawn by $2.3 million for working capital needs and by $1.8 million for the Healthmark acquisition and was fully repaid by year end.

On September 30, 2016, the term and revolving credit facilities were extended to September 30, 2019 on the same terms and conditions at a cost of $0.1 million in associated fees. On October 1, 2015, the term debt credit facility was increased by $15 million to fund the acquisition of Healthmark at a cost of $0.1 million and $1.8 million was drawn on the revolving debt credit facility under the same terms and conditions.

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, 2016, our leverage ratio was 1.1 (2015 – 1.5). Combined with cash flow from operations, management believes that adequate financing will be available for the foreseeable future[4].

Commitments and contractual obligations

In 2016, contingent consideration increased by $8.7 million and bank debt dropped by $5.0 million on repayments over 2015. Although the obligation to previous shareholder is on demand, the timing of the payment remains uncertain.

($ millions)	**Total**	**< 1 yr.**	**< 3 yrs.**	**< 5 yrs.**	**Beyond**
Bank debt	42.0		42.0		
Previous shareholder	1.0	1.0			
Contingent consideration	10.4	10.4			
Annual bonus plans	1.6	1.6			
Operating leases	21.9	5.0	8.6	4.1	4.2
	76.9	18.0	50.6	4.1	4.2

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 2017.

Management expects revenue growth to return to the industry growth average of 1 to 3%. The impact of exchange translation for the first quarter of 2017 is expected to reduce revenue by $2 million based on current exchange rates at U.S./Cdn.$0.76 up 3¢ from the first quarter in 2016.

EBITDA[1] for the fourth quarter was $9.4 million and $37.8 million for the year, and is expected to be maintained at levels of 13% of revenue. For the first quarter of 2017, translation is expected to impact EBITDA by $0.3 million at current exchange rates.

Interest rates are expected to remain at historically low levels for 2017.

Current income tax expense is expected to increase by $0.1 million in the first quarter of 2017 at current exchange rates.

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 $2.0 million in 2017 to fund system upgrades. 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. These expenditures will be funded by free cash flow[2].

Cash on hand of $13.3 million at year end will be deployed to pay contingent consideration of $10.4 million, accrued bonuses of $1.4 million and taxes payable of $1.1 million.

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 2017, 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 2016 Annual Information Form dated March 2, 2017.

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

Three facilities were leased in 2016 from officers 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 2, 2017, the Fund had 10,846,578 Units and Holdings had 846,435 exchangeable shares outstanding, respectively. See note 17 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, 2016 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, 2016 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. Management's analysis resulted in a $2.7 million recognition of expense through inventory write down for the year (2015 – $2.4 million). Based upon this review, management believes the obsolescence provision is adequate to cover risks inherent in inventory on hand as at December 31, 2016.

Intangible assets

Intangible assets have been recognized in connection with various acquisitions valued at $12.9 million as of December 31, 2016 pertaining to the future customer relationships. 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 $4.1 million future income tax liability as at December 31, 2016 will be amortized to income over 10-15 years from the date of acquisition. In addition, patent and trademark intangible assets of $4.4 million and an associated $1.7 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 $24.79 as at December 31, 2016 (2015 – $19.18), 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 of 1.6% and inflation of 2% per annum respectively. Overall the carrying value of goodwill continues to be supported by the fair value of the Fund.

Contingent consideration

Contingent consideration represents the additional purchase price payable to the sellers of Healthmark and is estimated at $10.4 million. The actual amount is based on earnings for 2016 without limitation and is payable on March 31, 2017. Based on the 2016 earnings, management believes the estimated accrual is adequate to settle the liability.

New Accounting Pronouncements

The Fund will adopt IFRS 15, *Revenue from Contracts with Customers* for the annual period beginning on January 1, 2018 and IFRS 16, *Leases* for the annual period beginning on January 1, 2019. The revenue standard requires us to evaluate the timing of revenue recognition for customers with contracts and custom moulds. The leases standard requires us to capitalize and amortize the fair market value of most operating leases over the term of the leases. The impact of the adoption of these standards is not expected to have a material impact on the future financial statements of net income. The likely future impact of the adoption of the leases standard is expected to increase long term assets and long term liabilities on the statements of financial position by approximately $19,000. See *Commitments and contractual obligations* for a summary of operating leases.

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, 2016 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, 2016 and there have been no changes in the internal controls over financial reporting during the year ended December 31, 2016 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, exceptional gains, contingent consideration revaluation, financial expenses, 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, exceptional gains and contingent consideration revaluation. 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 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.*