

## Richards Packaging Income Fund

### MANAGEMENT'S DISCUSSION AND ANALYSIS

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

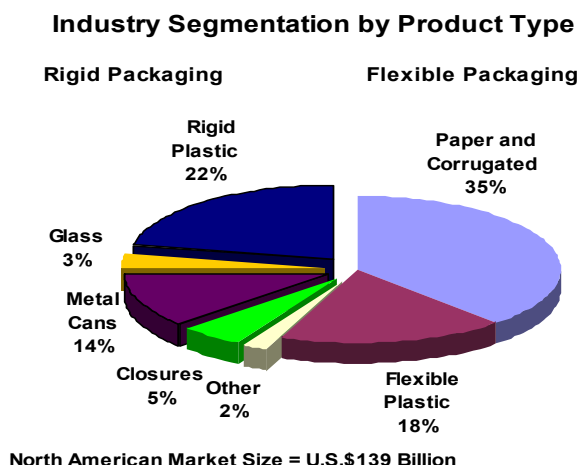
March 5, 2009

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This management's discussion and analysis of Richards Packaging Income Fund ("MD&A") for the 2008 year should be read in conjunction with the attached audited consolidated financial statements for the year ended December 31, 2008, the quarterly reports for the periods ended March 31, June 30 and September 30, 2008, and the Annual Information Form dated March 5, 2009. 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 growth in 2008 was 3% for plastics, 1% for glass and flat for metal.



As large product marketers have consolidated, packaging companies have embarked on a parallel industry consolidation strategy to meet their needs. Concentration is high in the glass, metal and paper segments with 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 2008 there were over 250 acquisitions in the global packaging industry, down 35% over 2007 with an average value of U.S.\$170 million at a median multiple of 6.9 times EBITDA (2007 – 7.4). For each of the last two years the top 20 companies have spent \$2.0 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. Overall sales growth for these companies averaged 7% for the last two years.

Energy prices continue to be a major factor for the industry affecting glass furnace economics, resin costs and freight costs. In 2008, oil and natural gas prices were extremely volatile with prices doubling driven by speculators and then tumbling driven by the global economic downturn. Resin prices were more stable due to traditional summer market softening with the dampening impact only felt in the fourth quarter. 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 6%, 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 2008.

## Richards Packaging Income Fund

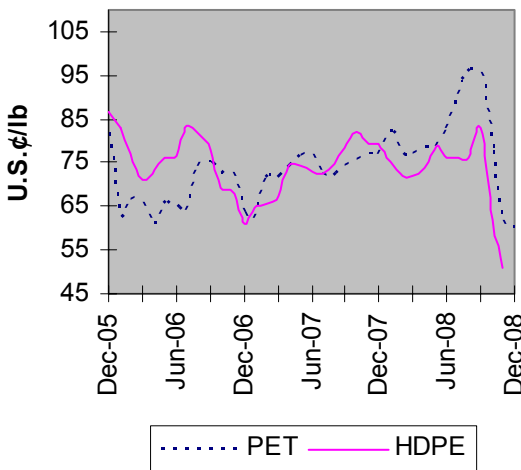
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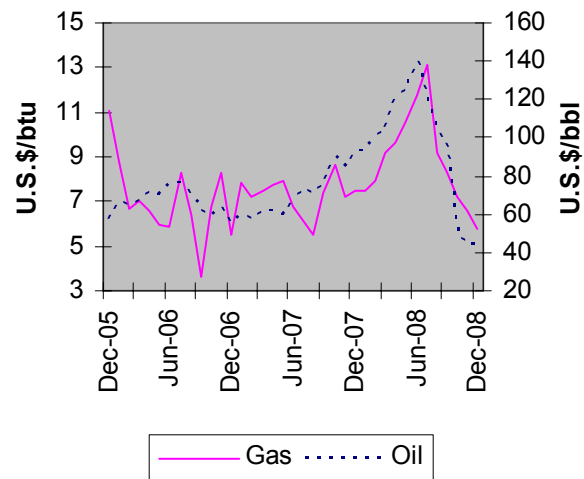
March 5, 2009

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#### Resin Prices



#### Oil & Natural Gas Prices



PET – Polyethylene terephthalate; HDPE – High Density Polyethylene

### Description of the Business and Fund Profile

Within the North American Packaging Industry a \$3 billion distributor-based market for rigid packaging exists to serve regional small- to medium-sized premium product marketers. Approximately 60 distributors provide marketing and package design expertise, source multiple packaging components from around the world, aggregate orders ensuring access to large manufacturers and provide inventory and logistics support to deliver a complete packaging solution. Concentration in this segment is low with the top five companies controlling approximately 40% of their market. Richards Packaging Holdings 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 over 9,000 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 17% 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 15 sales offices and one agency location.

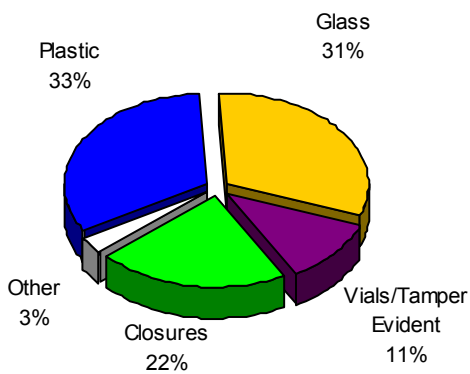
# Richards Packaging Income Fund

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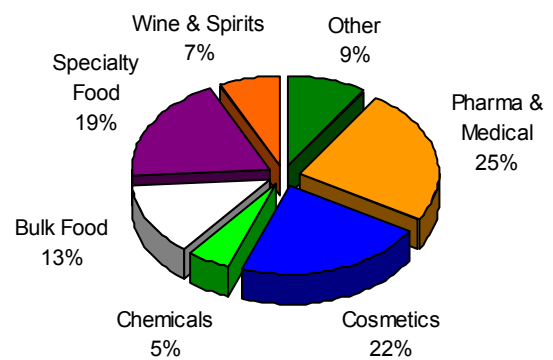
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March 5, 2009

### Revenue by Product

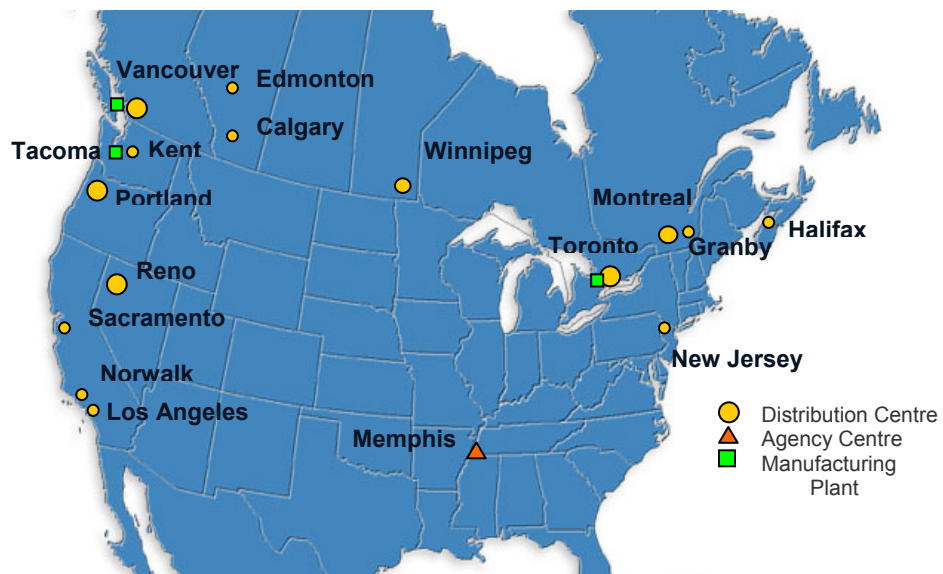


### Revenue by End User



Cosmetics and closures up due to McKernan acquisition;

### Richards Packaging Locations



## Richards Packaging Income Fund

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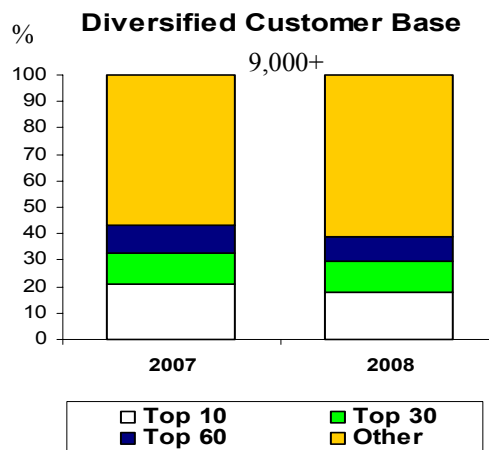
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March 5, 2009

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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 2008, 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. In addition, exposure to the US marketplace increased beyond the Richards Packaging, Inc. operations ("Richards US") to include The E.J. McKernan Co. ("McKernan"), collectively referred to herein as "Richards US operations" to take advantage of higher growth opportunities relative to the Canadian marketplace as customers in Canada are hindered by the strong Canadian dollar.

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 continues 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 the Richards Packaging's debt is denominated in US dollars (primarily to match the interest expense with cash flows from US operations), this exchange rate decrease caused an increase of \$8.6 million on a Cdn. equivalent basis and the leverage ratio to grow by 0.36x up to 2.78x debt to EBITDA<sup>1</sup> 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

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March 5, 2009

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beginning with a U.S. \$1 million repayment on November 30, 2008.

#### ***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 to 1.75% as we were required to reset our leverage covenant due to the dramatic increase in the leverage ratio. These increases in interest rates have been fully mitigated by dramatic declines in US LIBOR rates, which is used to set the interest rates.

#### ***Economic Recession***

During the fourth quarter, the gross domestic product in the United States and Canada dropped by 6.2% and 3.4%, respectively. This slowed the organic growth rate in our US operations from 17.6% to 4.3% for the fourth quarter. Our Canadian operations are currently experiencing no impact.

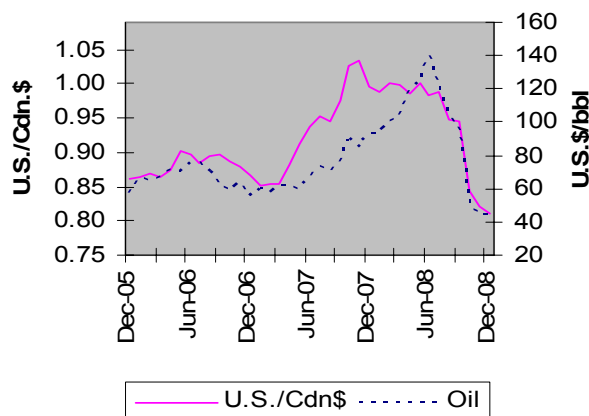
### Highlights and Selected Financial Information

Highlights of the overall performance for the 2008 year include:

- Revenue growth of 18.5%, mainly due to double digit growth in the United States and the McKernan acquisition,
- EBITDA growth of 25.0% representing 11.8% of sales, which includes reorganization costs at 0.3% of sales,
- Reorganized the Toronto area facilities reducing leased space by 29,000 square feet,
- Refinanced on June 3<sup>rd</sup> to add the acquisition borrowing to the term credit facility and extend its maturity to June 2011 and on Dec 10<sup>th</sup> to obtain temporary covenant relief until Sept 2009,
- Working capital decrease of \$1.2 million reflects the successful \$1.0 mil. recovery of past due accounts,
- Purchased 116,305 Units (@\$8.75/Unit) under our Normal Course Issuer Bid,
- Paid monthly distributions of 9.35¢ per Unit to yield a 19.0% annualized return (@\$5.90/Unit – Dec 31<sup>st</sup>),
- Maintained distributable cash flow<sup>2</sup> of \$1.24 per Unit. Given the annual distributions declared of \$1.13 per Unit, the implied payout ratio<sup>3</sup> was 91%.

The MD&A covers the three months ended December 31, 2008, the 12 months ended December 31, 2008 and 2007 (generally referred to in this MD&A as the “fourth quarter”, the “2008 year” and the “2007 year” respectively). The following table sets out selected consolidated financial information:

#### **Oil & Foreign Exchange**



## Richards Packaging Income Fund

### MANAGEMENT'S DISCUSSION AND ANALYSIS

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March 5, 2009

	Qtr. 1		Qtr. 2		Qtr. 3		Qtr. 4		12 months		
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2006
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
<b>Income Statement Data:</b>											
Revenue .....	44,541	40,333	48,899	39,830	48,476	38,064	45,400	39,781	187,316	158,008	159,005
EBITDA <sup>1</sup> .....	5,458	4,381	6,034	4,347	5,488	4,085	5,116	4,861	22,096	17,674	17,806
<i>Diluted per Unit</i> ....	45.4¢	40.6¢	50.4¢	40.3¢	46.1¢	37.9¢	43.0¢	41.9¢	\$1.85	\$1.61	\$1.65
Net income (loss) ...	348	2,056	3,078	3,905	525	3,313	(5,433)	2,006	(1,482)	11,280	8,510
<i>Diluted per Unit</i> ....	3.4¢	20.0¢	30.2¢	38.1¢	5.1¢	32.3¢	(53.7¢)	17.3¢	(\$0.15)	\$1.08	\$0.83
<b>Balance Sheet Data:</b>											
Total assets .....	184,104	149,943	180,521	147,127	180,686	143,476			189,991	179,905	154,791
Bank debt.....	53,556	34,645	53,975	31,950	55,115	31,127			62,455	48,656	35,027
<b>Cash Flow Statement Data:</b>											
Distributions .....	3,370	3,024	3,361	3,024	3,357	3,024	3,394	3,256	13,482	12,328	12,096
<i>Diluted per Unit</i> ....	28.1¢	28.1¢	28.0¢	28.0¢	28.1¢	28.0¢	28.4¢	28.1¢	\$1.13	\$1.12	\$1.12
Payout ratio <sup>3</sup> .....	90%	98%	82%	97%	98%	95%	98%	93%	91%	96%	93%

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, unrealized gains or losses on financial instruments and future income taxes. The Fund's payout ratio of 91% for the 2008 year was a 5% improvement over the 2007 year.

### Review of Operations

Richards Packaging's operations were approximately half (2007 – two-thirds) in Canada and half (2007 – one-third) 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 \$5.6 million, or 14.1%, for the fourth quarter, and by \$29.3 million, or 18.5%, for the 2008 year (2007 – \$1.0 million decrease, or 0.6%), from the same periods in 2007, respectively. During the fourth quarter, revenue increased \$5.6 million on organic growth and revenue from McKernan of \$1.7 million, or 4.3% (2007 – \$1.9 million, or 4.7%) and the translation impact of Richards US operations with the Canadian dollar weakening 19.2¢ to U.S./Cdn.\$0.83 of \$3.9 million (2007 – \$1.7 million decrease). For the 2008 year, organic growth and revenue from McKernan of \$27.8 million, or 17.6% (2007 – \$4.2 million) contributed to the revenue increase along with a \$1.5 million translation increase from Richards US operations due to a U.S./Cdn. 1.1¢ strengthening (2007 – \$2.5 million decrease).

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March 5, 2009

	Qtr. 1		Qtr. 2		Qtr. 3		Qtr. 4		12 months		
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2006
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
<b>Revenue</b> .....	<b>44,541</b>	<b>40,333</b>	<b>48,899</b>	<b>39,830</b>	<b>48,476</b>	<b>38,064</b>	<b>45,400</b>	<b>39,781</b>	<b>187,316</b>	<b>158,008</b>	<b>159,005</b>
Cost .....	<b>36,530</b>	<b>33,621</b>	<b>40,318</b>	<b>33,192</b>	<b>40,216</b>	<b>31,566</b>	<b>37,689</b>	<b>32,551</b>	<b>154,753</b>	<b>130,930</b>	<b>132,001</b>
Gross profit.....	<b>8,011</b>	<b>6,712</b>	<b>8,581</b>	<b>6,638</b>	<b>8,260</b>	<b>6,498</b>	<b>7,711</b>	<b>7,230</b>	<b>32,563</b>	<b>27,078</b>	<b>27,004</b>
	18.0%	16.7%	17.5%	16.7%	17.0%	17.1%	17.0%	18.2%	17.4%	17.1%	17.0%
Expenses.....	<b>2,509</b>	<b>2,368</b>	<b>2,505</b>	<b>2,308</b>	<b>2,479</b>	<b>2,338</b>	<b>2,536</b>	<b>2,428</b>	<b>10,029</b>	<b>9,442</b>	<b>9,231</b>
Reorganization <sup>a)</sup> .....	—	—	—	—	<b>253</b>	<b>149</b>	<b>293</b>	<b>104</b>	<b>546</b>	<b>253</b>	—
FX <sup>b)</sup> .....	<b>44</b>	<b>(37)</b>	<b>42</b>	<b>(17)</b>	<b>40</b>	<b>(74)</b>	<b>(234)</b>	<b>(163)</b>	<b>(108)</b>	<b>(291)</b>	<b>(33)</b>
<b>EBITDA</b> <sup>1</sup> .....	<b>5,458</b>	<b>4,381</b>	<b>6,034</b>	<b>4,347</b>	<b>5,488</b>	<b>4,085</b>	<b>5,116</b>	<b>4,861</b>	<b>22,096</b>	<b>17,674</b>	<b>17,806</b>
	12.3%	10.9%	12.3%	10.9%	11.3%	10.7%	11.3%	12.2%	11.8%	11.2%	11.2%
Amortization.....	<b>2,159</b>	<b>1,964</b>	<b>2,136</b>	<b>1,946</b>	<b>2,076</b>	<b>1,947</b>	<b>2,279</b>	<b>2,162</b>	<b>8,650</b>	<b>8,019</b>	<b>8,430</b>
Interest.....	<b>1,020</b>	<b>796</b>	<b>1,019</b>	<b>770</b>	<b>1,136</b>	<b>745</b>	<b>1,323</b>	<b>910</b>	<b>4,498</b>	<b>3,221</b>	<b>3,045</b>
UFI <sup>b)</sup> .....	<b>2,476</b>	<b>(372)</b>	<b>(778)</b>	<b>(2,685)</b>	<b>1,950</b>	<b>(2,013)</b>	<b>8,948</b>	<b>751</b>	<b>12,596</b>	<b>(4,319)</b>	<b>215</b>
Income tax .....	<b>(606)</b>	<b>(168)</b>	<b>75</b>	<b>211</b>	<b>(286)</b>	<b>(77)</b>	<b>(1,081)</b>	<b>(1,103)</b>	<b>(1,898)</b>	<b>(1,137)</b>	<b>(2,829)</b>
NCI <sup>b)</sup> .....	<b>61</b>	<b>105</b>	<b>504</b>	<b>200</b>	<b>87</b>	<b>170</b>	<b>(920)</b>	<b>135</b>	<b>(268)</b>	<b>610</b>	<b>435</b>
<b>Net Income (loss)</b> .....	<b>348</b>	<b>2,056</b>	<b>3,078</b>	<b>3,905</b>	<b>525</b>	<b>3,313</b>	<b>(5,433)</b>	<b>2,006</b>	<b>(1,482)</b>	<b>11,280</b>	<b>8,510</b>

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 US operations, UFI=unrealized losses/(gains) on financial instruments, NCI=non-controlling interests.

Exchange translation will now contribute to significant revenue increases with the depreciated U.S./Cdn.\$ exchange rates. Its impact for the fourth quarter is expected to continue throughout 2009 at approximately \$13 million for the year based on exchange rates at U.S./Cdn\$0.80. It is our view that the exchange rate depreciation will prevail and organic revenue growth will be at the higher end of the historic rate of between 1 to 3% per annum<sup>5</sup>.

Cost of products sold increased by \$5.1 million for the fourth quarter, or 15.8%, and by \$23.8 million for the 2008 year, or 18.2% (2007 – \$1.1 million decrease, or 0.8%), from the same periods in 2007, respectively. These increases were in line with the increases in revenue for the same periods however, the inability to pass on the f/x impact due to prior pricing commitments along with the selling of aged inventory on hand deploying the marketing knowledge obtained from the McKernan organization resulted in a 1.2% decrease in gross profit margins during the fourth quarter from the same period in 2007. For the 2008 year, gross profit margins were up 0.3% (2007 – 0.1%) from the same period in 2007 primarily due to the successful integration of our acquisitions and continued shift into 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 increased \$0.3 million, or 0.7% of sales for the fourth quarter and \$0.9 million, or 0.5% of sales for the 2008 year (2007 – \$0.5 million), over the same periods in 2007, respectively mainly due to the additional expenses from the McKernan organization and reorganization costs incurred to move the Toronto facilities. The foreign exchange loss/(gain) from operations results from exchange rate

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changes applied to our U.S. denominated working capital position within our Canadian operations and a decrease in the net investment in Richards US operations.

EBITDA<sup>1</sup> increased by \$0.3 million for the fourth quarter and by \$4.4 million for the 2008 year (2007 – \$0.1 million decrease), over the same periods in 2007, respectively. As a percent of sales, EBITDA was at 11.3% for the fourth quarter and 11.8% for the 2008 year (2007 – 11.2%). Changes were due to the factors outlined above, namely the organic growth and revenue from McKernan.

Other expenses comprise amortization, including debt accretion, and interest, which were higher due to the addition of the intangible assets and financing associated with the McKernan acquisition; and unrealized 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 \$2.3 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 \$0.1 million and capital asset amortization of \$0.6 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 2008 year increased by \$0.4 million and \$1.3 million, respectively from the same periods in 2007 due to the \$22.0 million additional borrowing mainly for the McKernan acquisition. This was offset by net interest rate reductions of 1.0% from the same periods in 2007 as the U.S. Federal Reserve rate reductions of 4.0% were offset by the negative impact of our interest rate swap on \$30.0 million of debt and a 1.75% refinancing margin increase.

Unrealized losses/(gains) on financial instruments are comprised of foreign currency translation of debt and mark-to-market adjustments of our fixed interest rate swap. Term debt outstanding at December 31, 2008 totaled U.S.\$51.0 million, which gave rise to an unrealized loss of \$8.6 million for the fourth quarter. Also included is \$0.3 million of unrealized loss on the mark-to-market of the fixed interest rate swap set on September 10, 2007 as variable interest rates dropped 200 bps during the quarter. For the 2008 year, unrealized foreign currency losses were \$12.2 million and together with the loss on the fixed interest rate swap noted above, net unrealized losses were \$12.6 million. On December 31, 2007 the exchange rate was U.S./Cdn.\$1.01, while in the fourth quarter it decreased to as much as U.S./Cdn.\$0.77 and closed on December 31, 2008 at U.S./Cdn.\$0.82. Richards Packaging has 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.

Current income taxes reflect the tax deductions inherent in distributions to unitholders. For the 2008 year, current income taxes were \$2.0 million (2007 – \$0.8 million) representing tax leakage predominately for the Richards US operations. Future income tax recoveries for the 2008 year were \$3.9 million (2007 – \$2.0 million) representing temporary differences due primarily to the reversal of accounting amortization and the recognition of loss carry forwards. Net future tax assets available to shield income taxes are \$4.5 million, which include a loss carry forward of \$4.0 million, \$0.3 million of initial public offering and financing fees and \$0.6 million of working capital offset by \$0.4 million of capital assets.

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Net loss for the fourth quarter was \$5.4 million, and for the 2008 year was \$1.5 million, which represented 53.7¢ and 15.0¢ per Unit on a diluted basis, respectively. A time-weighted average total of 10,158,325 Units and 1,793,533 exchangeable shares, exchangeable into Units on a one-for-one basis, were outstanding in 2008.

#### Distributable Cash Flow

	Qtr. 1		Qtr. 2		Qtr. 3		Qtr. 4		12 months		
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2006
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Cash provided by											
operating activities .....	1,655	1,559	3,492	3,173	5,853	1,980	5,851	2,850	16,851	9,562	18,034
Working capital changes .....	2,241	1,728	848	196	(2,275)	1,347	(2,038)	783	(1,224)	4,054	(4,090)
Non-cash charges .....	1,562	1,094	1,694	978	2,163	758	1,596	1,228	7,015	4,058	3,862
.....	5,458	4,381	6,034	4,347	5,741	4,085	5,409	4,861	22,642	17,674	17,806
Reorganization costs <sup>a)</sup> .....	—	—	—	—	253	(149)	293	(104)	546	(253)	—
Interest.....	1,020	796	1,019	770	1,136	745	1,323	910	4,498	3,221	3,045
Cash income taxes.....	542	298	675	208	774	13	(20)	318	1,971	837	817
Maintenance capital .....	136	205	213	239	137	291	177	240	663	975	884
Reorganization capital <sup>b)</sup> .....	—	—	—	—	—	—	154	—	154	—	—
Loan payments .....	10	10	10	10	7	10	—	10	27	40	40
<b>Distributable cash flow<sup>2)</sup></b> .....	<b>3,750</b>	<b>3,072</b>	<b>4,117</b>	<b>3,120</b>	<b>3,434</b>	<b>3,175</b>	<b>3,482</b>	<b>3,487</b>	<b>14,783</b>	<b>12,854</b>	<b>13,020</b>
<i>Diluted per Unit</i> .....	<i>31.2¢</i>	<i>28.5¢</i>	<i>34.4¢</i>	<i>28.9¢</i>	<i>28.8¢</i>	<i>29.4¢</i>	<i>29.2¢</i>	<i>30.0¢</i>	<i>\$1.24</i>	<i>\$1.17</i>	<i>\$1.21</i>
<b>Distributions</b> .....	<b>3,370</b>	<b>3,024</b>	<b>3,361</b>	<b>3,024</b>	<b>3,357</b>	<b>3,024</b>	<b>3,394</b>	<b>3,256</b>	<b>13,482</b>	<b>12,328</b>	<b>12,096</b>
<i>Diluted per Unit</i> .....	<i>28.1¢</i>	<i>28.1¢</i>	<i>28.0¢</i>	<i>28.0¢</i>	<i>28.0¢</i>	<i>28.0¢</i>	<i>28.5¢</i>	<i>28.1¢</i>	<i>\$1.13</i>	<i>\$1.12</i>	<i>\$1.12</i>
Payout ratio <sup>3)</sup> .....	90%	98%	82%	97%	98%	95%	98%	93%	91%	96%	93%
<b>Units purchased</b> .....	<b>257</b>	<b>—</b>	<b>379</b>	<b>—</b>	<b>382</b>	<b>—</b>	<b>—</b>	<b>246</b>	<b>1,018</b>	<b>246</b>	<b>—</b>
<b>Units outstanding on a diluted basis</b> .....	<b>12,015</b>	<b>10,781</b>	<b>11,971</b>	<b>10,781</b>	<b>11,914</b>	<b>10,781</b>	<b>11,908</b>	<b>11,611</b>	<b>11,952</b>	<b>10,990</b>	<b>10,781</b>

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<sup>2)</sup> 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; 2007 – \$1.2 million).

Distributable cash flow<sup>2)</sup> for the fourth quarter at \$3.5 million was flat with the same period in 2007 as increased EBITDA<sup>1)</sup> and lower cash income taxes were more than offset with reorganization costs and associated capital and higher interest from the McKernan acquisition and refinancing. Maintenance capital expenditures comprised primarily of moulds and were on target for the fourth quarter but lower than target for the year as funds were deployed for reorganization capital. Management plans to return to the annual target of \$0.9 million for the foreseeable future<sup>5)</sup>.

## **Richards Packaging Income Fund**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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

*March 5, 2009*

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The distribution for the 2008 year at \$1.13 per Unit represents an annual yield of 19.0% on a \$5.90 price per Unit at December 31, 2008 and a payout ratio<sup>3</sup> of 91% (2007 – 96%). Based upon the 2008 year, 80% of the distributions will represent interest on the subordinated note held by the Fund and 20% will be treated as a return of capital.

### **Liquidity and Financing**

#### ***Cash flows from operating activities***

Cash flow from operating activities increased by \$3.0 million for the fourth quarter and \$7.3 million for the 2008 year, over the same periods in 2007. The increases were due primarily to a combination of increased EBITDA<sup>1</sup>, net of increased interest, along with decreases in working capital associated with the successful recovery of past due accounts. The recovery of cash income taxes during the fourth quarter represents the decrease in withholding taxes with the ratification of the US/Canada tax treaty in December and annual adjustments for taxes owing in the Richards US operations.

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 2008 year were \$13.5 million with an additional \$1.1 million declared for December, which was paid January 15<sup>th</sup>.

#### ***Normal Course Issuer Bid***

On November 15, 2007, the Fund initiated a normal course issuer bid to purchase up to 307,700 Units prior to November 14, 2008. During the 2008 year, 116,305 Units were purchased at an average price of \$8.75 per Unit. The Fund has not reinstated the normal course issuer bid for 2009.

#### ***Cash income taxes***

The cash income tax expense for the 2008 year was \$2.0 million (2007 – \$0.8 million) predominately made up of current income tax for the Richards US operations and increased \$1.2 million due to organic growth and McKernan. The loss carry forwards in Richards Packaging ensure that income tax leakage will be limited to Richards US operations until the new tax imposed upon publicly traded income trusts takes effect in 2011<sup>5</sup>.

#### ***Capital expenditures***

Capital expenditures for the 2008 year were \$2.0 million (2007 – \$1.2 million), of which \$1.2 million (2007 – \$0.2 million) was on account of expansion capital and \$0.8 million on account of maintenance capital (2007 – \$1.0 million). Expenditures classified as maintenance capital are mainly comprised of new moulds or 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.

#### ***Acquisitions***

On October 31, 2007, management completed the acquisition of McKernan, a successful direct mail, catalogue and telemarketing packaging distributor and the largest provider of surplus packaging in the United States, for an

## Richards Packaging Income Fund

### MANAGEMENT'S DISCUSSION AND ANALYSIS

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

March 5, 2009

---

aggregate purchase price of U.S.\$30 million. The U.S.\$20 million cash portion of the purchase price was financed by a draw of U.S.\$18 million on Richards Packaging's acquisition credit facility and by a \$2 million private placement of exchangeable shares, exchangeable into 216,216 Units of the Fund. These shares were subscribed for equally by the CEO and the President of Richards Packaging at a price of \$9.25 per share. The balance of the purchase price was funded through the issuance of shares exchangeable into 1,052,632 Units of the Fund indirectly to Mr. McKernan.

#### *Financing activities and instruments*

Richards Packaging's credit facilities include a U.S.\$51.0 million term loan with repayment on June 3, 2011 and up to \$7.0 million in revolving debt to fund working capital expansion. During the 2008 year, the U.S.\$18.0 million draw on a previously available acquisition facility and the then outstanding \$4.0 million draw on the revolving facility were added to the term loan which was extended to 2011 and U.S.\$1.0 million of the term loan was repaid. On December 10, 2008, the acquisition facility was cancelled. During the 2007 year, the revolving and acquisition facilities were increased in order to facilitate the acquisition of McKernan.

Richards Packaging's credit facilities are subject to a number of covenants and restrictions including the requirement to meet certain financial ratios, most notably the leverage ratio. The leverage ratio covenant is to maintain debt less than 3.25 times the trailing twelve month EBITDA<sup>1</sup> until June 30, 2009 and is reduced to 2.75 times as at September 30, 2009. As of December 31, 2008 our proforma leverage ratio was 2.78. In order to ensure we achieve our target of 2.50 times leverage ratio by September 30, 2009, beginning in March 2009, distributions have been temporarily suspended. Combined with cash flow from operations, management believes that adequate financing will be available for the foreseeable future<sup>5</sup>.

Approximately half (2007 – 33%) of distributable cash flow for the 2008 was provided by Richards US operations. This increase reflects the organic growth experienced in the United States and the McKernan acquisition. As a consequence, the interest on the U.S. denominated debt and dividends on the U.S. denominated exchangeable shares negate approximately two-thirds of the inherent foreign currency exchange risk.

Richards Packaging entered into an interest rate swap contract with approved creditworthy counterparties 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 contract as at December 31, 2008 gave rise to an unrealized loss of \$354 (2007 – \$309).

#### *Commitments and contractual obligations*

	Total	< 1 year	1-3 years	4-5 years	Thereafter
	\$	\$	\$	\$	\$
Bank debt.....	61,916	—	61,916	—	—
Due to previous shareholder.....	966	966	—	—	—
Patents and trademarks.....	400	200	200	—	—
Annual bonus plans.....	824	489	335	—	—
Operating leases.....	17,672	3,464	4,224	4,140	5,844
	<b>81,778</b>	<b>5,119</b>	<b>66,675</b>	<b>4,140</b>	<b>5,844</b>

## **Richards Packaging Income Fund**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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

*March 5, 2009*

---

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<sup>5</sup>**

Management believes that the performance of Richards Packaging is on track to meet ongoing requirements for working capital and capital expenditures.

Revenue growth for the fourth quarter and 2008 year were above the long term industry average of 2-3% however, given the current economic climate, management expects Richards Packaging's organic growth rate to be more in line with the industry average.

EBITDA<sup>1</sup> for the fourth quarter was \$5.1 million and \$22.1 million for the 2008 year and continues to track at levels exceeding 11% of revenue. Management will continue to focus its attention on achieving operational improvements during 2009 and integrate the McKernan operation to drive this level up. Management's strategy is to deliver a compounded growth rate in distributable cash flow<sup>2</sup> in excess of 7.5%.

The cash income tax expense is expected to be \$2.5 million in 2009 due to tax leakage from the Richards US operations offset by a further reduction in the withholding tax rate to 4%. Based upon Richards Canada's current tax profile we expect to have approximately \$5 million of loss carry forwards which will partially shield taxes beginning in 2011. However, in 2011 the new 29.5% 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 line with sales. Expansion capital is expected to be in the order of \$2 to \$3 million cumulatively over the next few years to support the launch of new marketing programs by our customers, although no major expenditures are pending. These expenditures will be funded by debt.

#### **Risks and Uncertainties**

##### ***Business risks***

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 2008 Annual Information Form dated March 5, 2009.

##### ***Liquidity Risk***

## **Richards Packaging Income Fund**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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

*March 5, 2009*

---

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 grow in excess of \$50 million per year at which point the tax would be immediately effective.

Richards Packaging's capital structure involves commercially reasonable inter-company 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 US operations, 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 four of its facilities in 2008 from various former owners of Richards Packaging, who are currently officers or unitholders. 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, 2009, the Fund had 10,114,722 Units and Holdings had 1,793,533 exchangeable shares outstanding, respectively. See notes 10 and 11 of the attached consolidated financial statements for further discussion on the terms of the Units and exchangeable shares.

## Richards Packaging Income Fund

### MANAGEMENT'S DISCUSSION AND ANALYSIS

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

March 5, 2009

---

#### 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, 2008 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, 2008 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. Based upon this review, management believes the obsolescence provision is adequate to cover risks inherent in inventory on hand as at December 31, 2008.

##### *Intangible assets*

Richards Packaging has recognized an additional intangible asset in connection with the McKernan acquisition valued at \$9.1 million as of October 31, 2007 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. In addition, Richards Packaging recognized trademark intangible assets of \$2.9 million and an associated \$1.1 million future income tax liability. The customer relationship intangible and associated \$3.6 million future income tax liability as at December 31, 2007 will be amortized to income over 15 years. It should be noted that although this item, together with previously recognized patent and customer relationship intangible assets, affect net income, they do not impact distributable cash flow<sup>2</sup>.

##### *Goodwill*

	<b>Book</b>	<b>Units</b>	<b>Private</b>	<b>DCF</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>Goodwill value, December 31, 2007</b> .....	<b>70,187</b>	<b>87,747</b>	<b>58,652</b>	<b>81,928</b>
Currency translation gain (20¢ U.S./Cdn.).....	<b>7,368</b>	<b>7,368</b>	<b>7,368</b>	<b>7,368</b>
Earnings net of distributions .....		<b>2,516</b>	<b>2,516</b>	<b>2,516</b>
Unit buyback (116 units) .....		<b>(1,076)</b>		
Unit price decrease (\$3.35/unit) .....		<b>(39,893)</b>		
EBITDA improvement.....			<b>28,579</b>	<b>25,580</b>
Multiple contraction (-0.5x) .....			<b>(8,837)</b>	<b>(2,404)</b>
Debt currency translation (20¢ U.S./Cdn.) .....			<b>(13,799)</b>	<b>(13,799)</b>
<b>Goodwill value, December 31, 2008</b> .....	<b>77,555</b>	<b>56,662</b>	<b>74,479</b>	<b>101,189</b>

## Richards Packaging Income Fund

### MANAGEMENT'S DISCUSSION AND ANALYSIS

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

*March 5, 2009*

---

Goodwill represents the excess of the 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. The book value of goodwill increased by \$7,368 to reflect a currency translation gain related to the translation of Richards US operations ("Book"). The price of Units in the Fund traded on the Toronto Stock Exchange fell to \$5.90/unit as at December 31, 2008 (2007 – \$9.25/unit) which management believes is temporary in nature and more reflective of the overall mood of financial markets rather than indicative of the fair value of the goodwill of the Fund ("Units"). We compared the private prices paid on sales of packaging businesses as outlined in the Annual Deal Review report provided by BMO Capital Markets using the average multiple of 6.9 times EBITDA<sup>1</sup> less debt for the year ended December 31, 2008 and noted that the multiple was consistent throughout the year ("Private"). On this basis, the fair value of the Fund increased significantly mainly due to organic growth and the McKernan acquisition partially offset by the increase in the U.S. dollar denominated debt due to a drop in the exchange rate by U.S./Cdn 20¢. To determine fair value, management relies mainly upon a valuation method based on a discounted cash flow model ("DCF") that assumes revenue growth and inflation of 2% per annum respectively. The discount rate applied to these cash flows reflects the weighted average cost of capital, which is based on the Fund's capital structure and the associated costs of debt and equity funding at December 31, 2008. Overall the carrying value of goodwill continues to be supported by the fair value of the Fund.

### Change in Accounting Policies

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. Richards Packaging did not experience any partial write-downs or write-ups during the 2008 year and has no partially written-down inventory that would require separate disclosure. 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.

Effective January 1, 2007 the Canadian Institute of Chartered Accountants Handbook Sections 1530 & 3251 *Comprehensive Income and Equity*, Section 3855 *Financial Instruments – Recognition and Measurement* were adopted. In accordance with Sections 1530 and 3251, comprehensive income and its components are presented as part of the financial statements. Gains and losses from the translation of Richards Packaging subsidiaries in the United States are presented in our statement of comprehensive income (loss) as other comprehensive income (loss). Previously, these gains and losses were included in unitholders' equity as cumulative translation adjustment. In accordance with Section 3855, Richards Packaging has assessed the nature of all financial assets and liabilities as either held for trading, available for sale, held to maturity, loans and receivables or other liabilities. Given the short-term nature of our financial assets and liabilities and that our debt bears interest at variable rates, there was no material impact on 2007 or prior periods. Deferred financing fees of \$380 were deducted from long-term debt as of January 1, 2007 and, together with additional fees paid, are amortized over the effective interest period as debt accretion.

## Richards Packaging Income Fund

### MANAGEMENT'S DISCUSSION AND ANALYSIS

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

*March 5, 2009*

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#### **New Accounting Pronouncements**

The Canadian Institute of Chartered Accountants recently issued accounting standard Section 3064 *Goodwill and Intangible Assets* that establishes standards for the recognition, measurement, and disclosure of goodwill and intangible assets. Management is currently evaluating the standard and cannot reasonably determine the effect at this time.

#### ***International Financial Reporting Standards ("IFRS")***

In 2008, 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 Richards Packaging has developed a plan to convert its consolidated financial statements to IFRS. A team represented by managers in the areas of Accounting, Taxation and IT are involved in the implementation. Richards Packaging has completed the initial assessment phase which involved a high level review of the differences between current Canadian GAAP and IFRS. Richards Packaging will complete a detailed assessment of the accounting and disclosure standards as well as the impact of IFRS conversion on the systems, processes and controls, regulatory and taxation in 2009.

#### **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, 2008 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, 2008 and there have been no changes in the Fund's internal controls over financial reporting during the year ended December 31, 2008 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](http://www.richardspackaging.com), SEDAR at [www.sedar.com](http://www.sedar.com) or TSX at [www.tsx.com](http://www.tsx.com).

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- 1 Management defines EBITDA as earnings before amortization, interest, unrealized gain / loss 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*

## Richards Packaging Income Fund

### MANAGEMENT'S DISCUSSION AND ANALYSIS

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

March 5, 2009

---

*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<sup>2</sup>. 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 Management defines EV as enterprise value. The private equity standard multiple of EBITDA is 6.9 in the North American packaging industry. EV does not have a standardized meaning prescribed by GAAP and therefore the Fund's method of calculating EV may not be comparable to similar measures presented by other companies or income trusts.*
- 5 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](http://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.*