Richards Packaging Income Fund

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

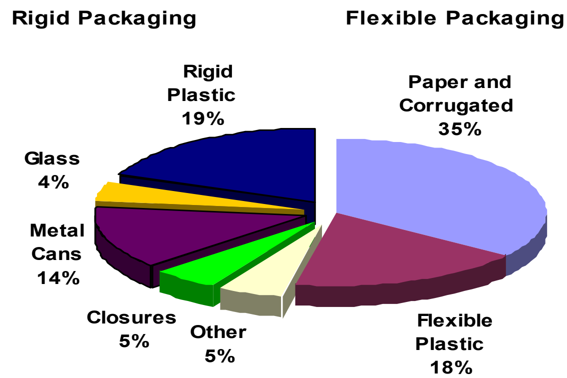
March 6, 2007

This management's discussion and analysis of Richards Packaging Income Fund ("MD&A") for the 2006 year should be read in conjunction with the attached audited consolidated financial statements for the year ended December 31, 2006, the quarterly reports for the periods ended March 31, June 30 and September 30, 2006, and the Annual Information Form dated March 6, 2007. 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 this 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 2006 was 3% for plastics, 1% for glass and flat for metal.

Industry Segmentation by Product Type



North American Market Size = U.S.$130 Billion

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 2006 there were over 350 acquisitions in the global packaging industry, up 6% over 2005 with an average value of U.S.$110 million in line with the activity level of the previous few years. For each of the last two years the top 20 companies have spent $1.3 billion on capital at the cautious rate of 4% of revenue. At the same time excess capacity is continually being addressed with the Chapter 11 filing of Anchor Glass and numerous plastic plant closures in 2006. Overall sales growth for these companies averaged 6% 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. Oil prices continued to climb over the first half of the year but retreated in the second half back to levels seen at the beginning of the year. Financing structures in place at most packaging companies are similar to that of an income trust, with significant use of debt priced anywhere from 7% to 13% and free cash flow as defined within the industry at 5%, which ensures that a disciplined approach to passing cost increases through will remain in place. Clear evidence is that for the top 20 companies, their EBITDA as defined within the industry as a percent of sales has remained at a healthy 12% overall for 2006.

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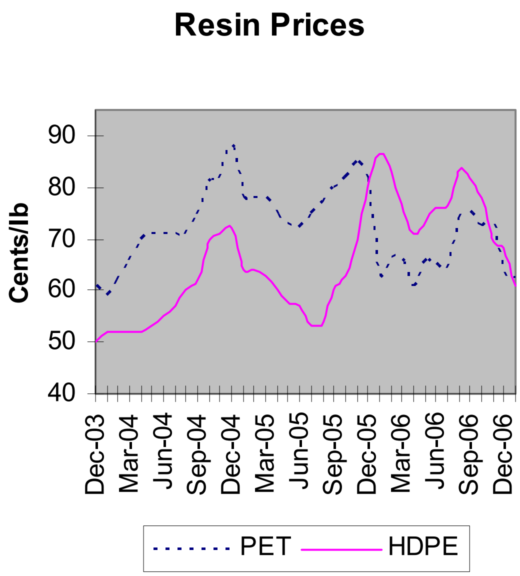

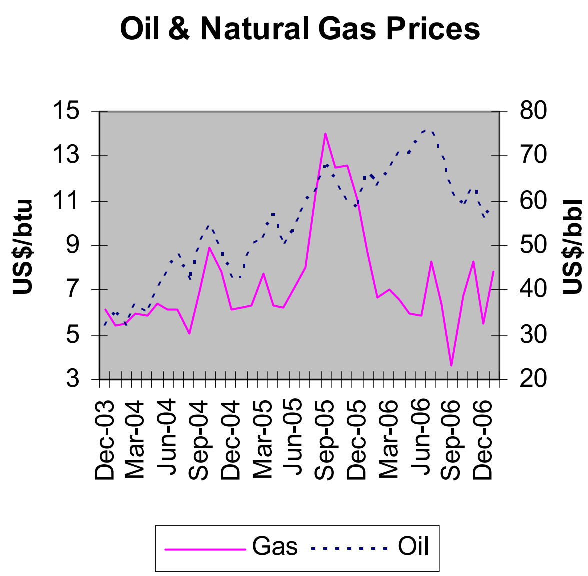

Description of the Business and Fund Profile

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 36% of their market. Richards Packaging Inc. ("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 7,000 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 22% 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 13 sales offices and one agency location.

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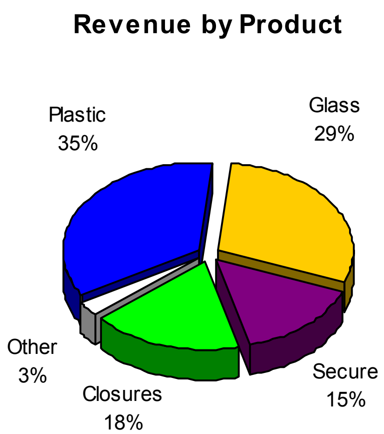
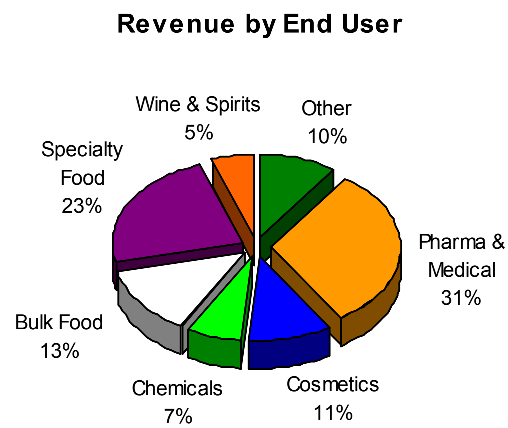
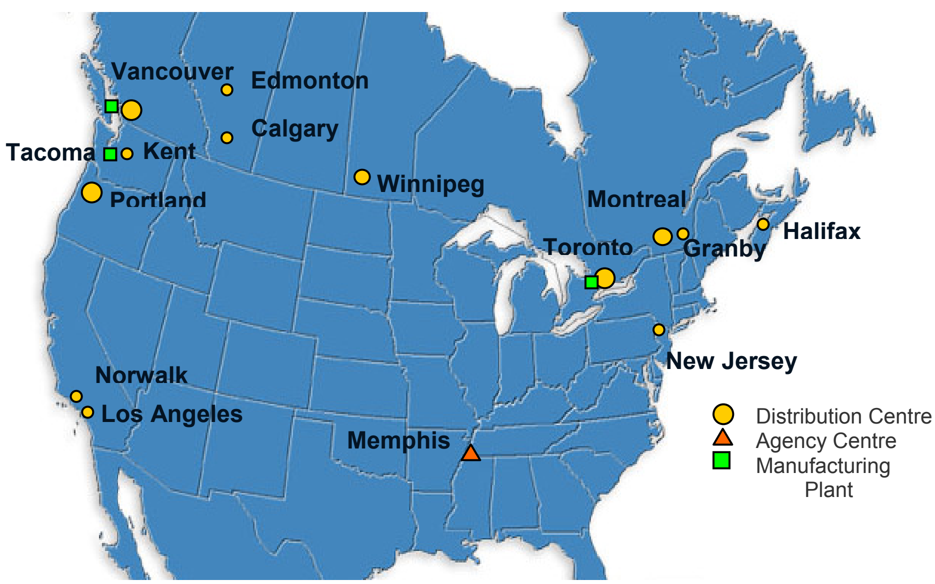




Richards Packaging Locations



MANAGEMENT'S DISCUSSION AND ANALYSIS

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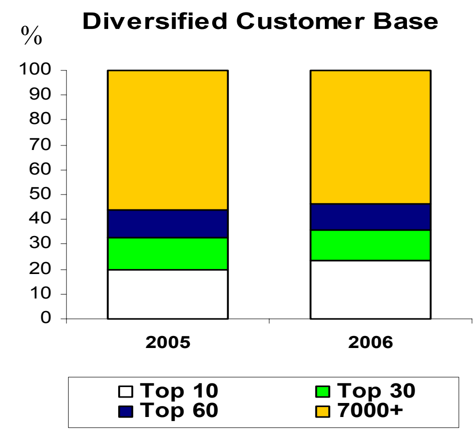
March 6, 2007

The cornerstones of Richards Packaging's strategy include:

- Focusing on a diversified customer base that is 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, and
- Being the only major distributor with dedicated in-house manufacturing capability.



During 2006, 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.

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 through Richards Packaging Holdings Inc. ("Holdings") purchased 96% of the securities of Richards Packaging.

Highlights and Selected Financial Information

Highlights of the overall Fund performance for the 2006 year include:

- Organic growth of 0.9% partially offsetting impact of strategic repositioning, agency exit and foreign exchange translation,
- Strengthened management team and completed the integration plans of the four acquisitions from 2005 and 2004,
- Exceeded our target profit improvement plan with an EBITDA[1] increase of $2.6 million or 17%. Increased EBITDA as a percentage of sales by 2.0% to 11.2%,
- Utilized cash flow from our working capital reduction program, eliminated revolving credit borrowings of $2.2 million, covered outstanding cheques of $1.3 million and increased cash on hand by $1.4 million,
- Refinanced with the existing lending syndicate converting the borrowing on the acquisition credit facility to the long-term credit facility and extended maturity for three years,
- Paid monthly distributions of 9.35¢ per Unit to yield a 12.5% annualized return (@$9/Unit), and
- Maintained distributable cash flow[2] of $1.21 per Unit. Given the cumulative distributions declared of $1.12 per Unit, the implied payout ratio[3] was 93%.

Richards Packaging Income Fund

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March 6, 2007

The MD&A covers the three months ended December 31, 2006, the 12 months ended December 31, 2006 and 2005 (generally referred to in this MD&A as the "fourth quarter", the "2006 year" and the "2005 year" respectively). Selective comparative information for the 12 months ended December 31, 2004 is provided from the financial records of Richards Packaging as the Fund completed an initial public offering on April 7, 2004. The following table sets out selected consolidated financial information of the Fund:

	Qtr. 1		**Qtr. 2**		**Qtr. 3**		**Qtr.4**		**12 months**			**Apr. 7 to Dec. 31**
	2006	**2005**	**2006**	**2005**	**2006**	**2005**	**2006**	**2005**[c)]	**2006**[a)]	**2005**[a)]	**2004**[b)]	**2004**[a)]
	$	$	$	$	$	$	$	$	$	$	$	$
Income Statement Data:												
Revenue	**40,053**	**39,818**	**39,662**	**43,056**	**38,966**	**41,723**	**40,324**	**40,683**	**159,005**	**165,280**	**154,402**	**113,318**
EBITDA[1]	**4,362**	**3,030**	**4,408**	**3,866**	**4,637**	**3,809**	**4,399**	**4,520**	**17,806**	**15,225**	**14,538**	**10,974**
Diluted per Unit	*40.5¢*	*28.1¢*	*40.9¢*	*35.9¢*	*43.0¢*	*35.3¢*	*40.8¢*	*41.9¢*	*$1.652*	*$1.412*	*$1.355*	*$1.024*
Net income	**1,587**	**1,106**	**3,606**	**1,340**	**1,930**	**2,518**	**1,387**	**1,907**	**8,510**	**6,871**		**5,441**
Diluted per Unit	*15.5¢*	*10.8¢*	*35.2¢*	*13.1¢*	*18.8¢*	*24.6¢*	*13.5¢*	*18.5¢*	*$0.830*	*$0.670*		*$0.530*
Balance Sheet Data:												
Total assets	**162,611**	**166,019**	**157,266**	**168,715**	**154,475**	**169,658**			**154,791**	**162,819**		**163,404**
Bank debt	**37,078**	**30,237**	**34,739**	**32,070**	**33,538**	**37,920**			**35,027**	**37,052**		**25,673**
Cash Flow Statement Data:												
Distributions	**3,024**	**3,024**	**3,024**	**3,024**	**3,024**	**3,024**	**3,024**	**3,024**	**12,096**	**12,096**		**8,001**
Diluted per Unit	*28.1¢*	*28.1¢*	*28.0¢*	*28.0¢*	*28.0¢*	*28.0¢*	*28.1¢*	*28.1¢*	*$1.122*	*$1.122*		*$0.746*
Payout ratio[3]	*91%*	*102%*	*93%*	*94%*	*92%*	*94%*	*96%*	*85%*	*93%*	*93%*		*91%*

a) Amounts are derived from the audited consolidated financial statements.
b) Amounts are derived from unaudited historical financial statements of Richards Packaging.
c) EBITDA includes $514 for reversal of annual accruals (see Review of Operations).

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 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 93% for the 2006 year was consistent with the 2005 year and approximates the Fund's target payout ratio of 90%.

Review of Operations

Richards Packaging's operations are approximately two-thirds in Canada ("Richards Canada") and one-third in the United States ("Richards US"). Approximately 50% of Richards Packaging's sales are concentrated in Toronto, Montreal and Vancouver and 20% in Los Angeles and Portland. Comparatives for revenue and EBITDA[1] have been provided but not other expenses for the 12 months ended December 31, 2004, as the capital structure of the Fund was significantly different than that of Richards Packaging in the prior period, and therefore would not provide meaningful comparisons.

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

	Qtr. 1		Qtr. 2		Qtr. 3		Qtr. 4		12 months			Apr. 7 to Dec. 31
	2006	2005	2006	2005	2006	2005	2006	2005[d]	2006[a]	2005[a]	2004[b]	2004[a]
	$	$	$	$	$	$	$	$	$	$	$	$
Revenue	**40,053**	**39,818**	**39,662**	**43,056**	**38,966**	**41,723**	**40,324**	**40,683**	**159,005**	**165,280**	**154,402**	**113,318**
Cost	**33,366**	**34,512**	**33,023**	**36,871**	**32,066**	**35,608**	**33,546**	**33,969**	**132,001**	**140,960**	**132,387**	**96,922**
Gross profit	**6,687**	**5,306**	**6,639**	**6,185**	**6,900**	**6,115**	**6,778**	**6,714**	**27,004**	**24,320**	**22,015**	**16,396**
	16.7%	*13.3%*	*16.7%*	*14.4%*	*17.7%*	*14.7%*	*16.8%*	*16.5%*	*17.0%*	*14.7%*	*14.3%*	*14.5%*
Expenses	**2,288**	**2,299**	**2,236**	**2,344**	**2,230**	**2,352**	**2,347**	**2,258**	**9,101**	**9,253**	**7,926**	**5,871**
LTIP[c]	**33**	**—**	**33**	**47**	**32**	**23**	**32**	**26**	**130**	**96**	**—**	**—**
FX[c]	**4**	**(23)**	**(38)**	**(72)**	**1**	**(69)**	**—**	**(90)**	**(33)**	**(254)**	**(449)**	**(449)**
EBITDA[1]	**4,362**	**3,030**	**4,408**	**3,866**	**4,637**	**3,809**	**4,399**	**4,520**	**17,806**	**15,225**	**14,538**	**10,974**
	10.9%	*7.6%*	*11.1%*	*9.0%*	*11.9%*	*9.1%*	*10.9%*	*11.1%*	*11.2%*	*9.2%*	*9.4%*	*9.7%*
Amortization	**2,116**	**2,003**	**2,123**	**2,022**	**2,116**	**2,113**	**2,075**	**2,262**	**8,430**	**8,400**		**7,127**
Interest	**662**	**429**	**839**	**558**	**796**	**652**	**748**	**673**	**3,045**	**2,312**		**1,154**
UFI[c]	**209**	**80**	**(1,502)**	**394**	**9**	**(1,877)**	**1,499**	**226**	**215**	**(1,177)**		**(2,190)**
Income tax	**(293)**	**(645)**	**(843)**	**(517)**	**(312)**	**274**	**(1,381)**	**(645)**	**(2,829)**	**(1,533)**		**(802)**
NCI[c]	**81**	**57**	**185**	**69**	**98**	**129**	**71**	**97**	**435**	**352**		**244**
Net Income	**1,587**	**1,106**	**3,606**	**1,340**	**1,930**	**2,518**	**1,387**	**1,907**	**8,510**	**6,871**		**5,441**

a) *Amounts are derived from the audited consolidated financial statements.*
b) *Amounts are derived from unaudited historical financial statements of Richards Packaging.*
c) LTIP=*long-term incentive plan*, FX=*foreign currency losses/(gains) from operations*, UFI=*unrealized losses/(gains) on financial instruments,* NCI=*non-controlling interests*.
d) *Gross profit includes $514 for reversal of annual accruals.*

Revenue decreased by $0.4 million, or 0.9%, for the fourth quarter, and by $6.3 million, or 3.8%, for the 2006 year (2005 - increased $10.9 million, or 7.1%), from the same periods in 2005, respectively. During the fourth quarter, organic growth of $1.6 million, or 4.1% fully offset the impacts of exit from non-strategic customers and the Omaha agency, with the overall decrease mainly attributable to the $0.5 million translation impact of Richards US with the Canadian dollar strengthening by 2.6¢ to U.S./Cdn.$0.878. For the 2006 year, organic growth of $1.4 million, or 0.9% (2005 - $2.3 million, or 1.7%), was more than offset by the $1.5 million sales mix transition program to a higher concentration of higher margin strategic products (2005 - $0.7 million), the departure of the Omaha agency for $1.9 million (2005 – increase acquisitions $12.0 million) and the $4.3 million translation impact of Richards US with the Canadian dollar strengthening by 5.6¢ to U.S./Cdn.$0.882 (2005 - $3.6 million).

The foreign translation impact for the fourth quarter was relatively low compared to the first three quarters and should turn positive, based upon the current exchange rates, beginning in the first quarter of 2007 by $0.2 million for revenue and $0.1 million for gross profit[5]. In a highly inflationary resin environment Richards Packaging experiences a slight rise in the churn rate and lower net organic growth; however, it is our view that inflation will subside and revenue growth will return to the historic rate of between 3 to 5% per annum[5]. The volatility in the price of resins did not have a material impact on margins as a result of management's practice of immediately passing through increases and decreases to customers.

Cost of products sold decreased by $0.4 million for the fourth quarter, or 1.2%, and by $9.0 million for the 2006 year, or 6.4% (2005 - increased $8.6 million, or 6.5%), from the same periods in 2005, respectively. Synergies achieved from the integration of the acquisitions resulted in lower selling and distribution costs, resulting in gross margin increases of 0.3% during the fourth quarter and 2.3% for the 2006 year (2005 - 0.4%), from the same periods in 2005, respectively.

The fourth quarter gross margins in the 2005 year increased by an additional $0.5 million or 1.2% due to the reversal of annual estimates booked in the first three quarters of the 2005 year. Based on the final 2005 year results it was determined that these accruals were excessive and accordingly they were reversed to income. These estimates depressed each of the first three quarters for 2005 by approximately $0.2 million.

General and administrative expenses increased $0.1 million for the fourth quarter and decreased $0.2 million for the 2006 year (2005 – increased $1.3 million), over the same periods in 2005, respectively. Approximately half of the increase for the 2005 year was due to acquisitions and the other half due to public company costs, such as directors' fees, professional fees, insurance, filing fees and additional staff.

EBITDA[1] increased by $0.4 million, net of the $0.5 million accrual reversal, for the fourth quarter and $2.6 million for the 2006 year (2005 - $0.7 million), over the same periods in 2005, respectively. As a percent of sales, EBITDA was at 10.9% for the fourth quarter and 11.2% for the 2006 year (2005 - 9.2%). Changes were due to the factors outlined above. Also during the 2006 year, Richards Packaging realized a $0.2 million lower foreign exchange gain from the internal hedging program on cross-boarder transactions.

Other expenses of the Fund included amortization and interest, which were higher due to the addition of the intangible assets and financing associated with the Dispill acquisition; unrealized foreign exchange gains on translation of long-term debt, which reflects the movement in the exchange rate and unrealized losses on financial instruments. The only cash item in other expenses is the interest paid by Richards Packaging.

Amortization of $2.1 million for the fourth quarter was mainly comprised of $1.4 million for intangible assets, which represents a charge of $1.3 million per quarter for customer relationships and contracts and $0.1 million for patents and trademarks. The remaining amortization amounts consisted of deferred financing fees of $0.1 million that will continue for the remainder of the three-year term of the debt facilities and capital asset amortization of $0.6 million per quarter, which is approximately three times Richards Packaging's maintenance capital expenditure spending requirement.

The term loan outstanding at December 31, 2006 totaled U.S.$30.0 million, which gave rise to the unrealized foreign currency translation loss in the quarter of $1.5 million. Unrealized foreign currency losses for the year were negligible as on December 31, 2005 the exchange rate was U.S./Cdn.$0.858, while during the period it increased as high as U.S./Cdn.$0.907 and closed on December 31, 2006 at U.S./Cdn.$0.858. Richards Packaging has borrowed mainly in U.S. dollars to match the U.S. dollar interest obligations with the cash it receives from Richards US. It is management's intention to continue to borrow funds denominated in U.S. dollars for the foreseeable future[5].

Current income taxes for the 2006 year reflect the tax deductions inherent in distributions to unitholders. The $0.8 million of current income tax leakage is predominately for Richards US. Net future tax assets available to shield income taxes are $3.3 million, which include $2.1 million of initial public offering and financing fees and a loss carry forward of $2.0 million offset by $0.3 million of unrealized gains on financial instruments and $0.5 million of capital assets.

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Net income for the fourth quarter was $1.4 million, and for the 2006 year was $8.5 million, which represented 13.5¢ and 83.0¢ per Unit on a diluted basis, respectively. A total of 10,256,327 Units and 524,685 Holdings shares, exchangeable into Units on a one-for-one basis, were outstanding throughout the year.

Distributable Cash Flow

	Qtr. 1		Qtr. 2		Qtr. 3		Qtr. 4		12 months		Apr. 7 to Dec. 31
	2006	**2005**	**2006**	**2005**	**2006**	**2005**	**2006**	**2005[b)]**	**2006[a)]**	**2005[a)]**	**2004[a)]**
	$	$	$	$	$	$	$	$	$	$	$
Cash provided by (used in) operating activities	**3,569**	**(3,267)**	**5,814**	**3,182**	**5,390**	**1,446**	**3,261**	**4,282**	**18,034**	**5,643**	**11,881**
Working capital changes	**(25)**	**6,127**	**(2,367)**	**173**	**(1,805)**	**1,535**	**107**	**(1,047)**	**(4,090)**	**6,788**	**(2,347)**
Non-cash charges	**818**	**170**	**961**	**511**	**1,052**	**828**	**1,031**	**1,285**	**3,862**	**2,794**	**1,440**
EBITDA[1]	**4,362**	**3,030**	**4,408**	**3,866**	**4,637**	**3,809**	**4,399**	**4,520**	**17,806**	**15,225**	**10,974**
Interest	**662**	**429**	**839**	**558**	**796**	**652**	**748**	**673**	**3,045**	**2,312**	**1,154**
Cash income taxes	**156**	**(510)**	**122**	**(138)**	**256**	**(193)**	**283**	**129**	**817**	**(712)**	**411**
Maintenance capital.	**201**	**107**	**195**	**225**	**291**	**126**	**197**	**141**	**884**	**599**	**548**
Loan payments	**10**	**25**	**10**	**11**	**10**	**10**	**10**	**10**	**40**	**56**	**46**
Distributable cash flow[2]	**3,333**	**2,979**	**3,242**	**3,210**	**3,284**	**3,214**	**3,161**	**3,567**	**13,020**	**12,970**	**8,815**
Diluted per Unit	*30.9¢*	*27.6¢*	*30.1¢*	*29.8¢*	*30.5¢*	*29.8¢*	*29.3¢*	*33.1¢*	*$1.208*	*$1.203*	*$0.822*
Distributions	**3,024**	**3,024**	**3,024**	**3,024**	**3,024**	**3,024**	**3,024**	**3,024**	**12,096**	**12,096**	**8,001**
Diluted per Unit	*28.1¢*	*28.1¢*	*28.0¢*	*28.0¢*	*28.0¢*	*28.0¢*	*28.1¢*	*28.1¢*	*$1.122*	*$1.122*	*$0.746*
Payout ratio[3]	*91%*	*102%*	*93%*	*94%*	*92%*	*94%*	*96%*	*85%*	*93%*	*93%*	*91%*
Units outstanding on a diluted basis	**10,781**	**10,781**	**10,781**	**10,781**	**10,781**	**10,781**	**10,781**	**10,781**	**10,781**	**10,781**	**10,720**

a) *Amounts are derived from the audited consolidated financial statements.*
b) *Working capital changes include $514 for reversal of annual accruals (see Review of Operations).*

The distributable cash flow[2] definition excludes changes in working capital as they are necessary to drive organic growth and are expected to be financed by a $5.0 million revolving facility available to Richards Packaging (nil drawn; 2005 - $2.2 million). Likewise capital expenditures for expansion of the business are excluded as they are intended to generate future growth in distributable cash and are expected to be financed primarily by a U.S.$7.0 million acquisition facility (nil drawn; 2005 - U.S.$11.6 million).

Distributable cash flow[2] for the fourth quarter at $3.2 million was at approximately the same level as the previous three quarters and consistent with the same period in 2005 (net of the $0.5 million accrual reversal). Maintenance capital expenditures were at target for the fourth quarter and management continues to believe that the annual target of $0.75 million is appropriate[5].

The distribution for the 2006 and 2005 years at $1.122 per Unit represents an annual yield of 12.5% on a $9 price per Unit and a payout ratio[3] of 93%. We believe that a long-term payout ratio of approximately 90% is appropriate and provides a reasonable cushion to enhance the stability and predictability of future distributions. Based upon the 2006 year, 81% of the distributions will represent interest on the subordinated note held by the Fund and 19% will be treated as a return of capital to the unitholders.

Liquidity and Financing

Cash flows from operating activities

Cash flow from operating activities was down by $1.0 million for the fourth quarter and up by $12.4 million for the 2006 year (2005 – down $6.2 million). Most of the increase for the 2006 year was the result of working capital improvement program. The additional cash flow of $0.9 million derived from working capital reductions in the fourth quarter is seasonal in nature and will reverse in January. Many of our customers use the month of December to shut down facilities for annual maintenance, therefore we follow their lead and lower working capital during the holiday season.

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 2006 year were $12.1 million with an additional $1.0 million declared for December, which was paid January 15th.

Cash income taxes

The cash income tax expense for the 2006 year was $0.8 million (2005 - $0.7 million recovery) predominately made up of payments by Richards US. For the 2005 year, $1.1 million represented refunds from the April 7, 2004 income tax returns being offset by $0.4 million of income tax payments for Richards US.

Capital expenditures

Capital expenditures for the 2006 year were $0.9 million, all incurred on account of maintenance capital (2005 - $0.6 million maintenance and $1.2 million expansion capital). Expenditures classified as maintenance capital are mainly comprised of refurbishment of or new moulds for replacement packaging driven by customer marketing programs. Expansion capital in the 2005 year was deployed for a new machine in the Tacoma plant and the associated moulds.

Financing activities and instruments

Richards Packaging's credit facilities include a U.S.$30.0 million term loan with repayment on June 5, 2009, up to $5.0 million in revolving debt to fund working capital expansion and up to U.S.$7.0 million for expansion capital and/or acquisition financing. During the 2006 year, the U.S.$11.6 million drawn under the acquisition facility was refinanced and added to the term facility and $2.2 million of revolving debt was repaid. During the 2005 year, $3.2 million of the revolving credit facility was drawn, $1.0 million was repaid in the fourth quarter, and a repayment of the loans due to officers was made totaling $0.6 million.

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

The revolving debt and acquisition facilities are annual in nature and will be up for renewal on June 4, 2007. Management is confident that these facilities will be renewed with the current lending syndicate. Combined with cash flow from operations, management believes that adequate financing will be available for the foreseeable future[5].

Approximately 27% of distributable cash flow[2] for the 2006 year was provided by Richards US (2005 – 23%). The interest on the U.S. dollar debt described above negates the inherent foreign currency exchange risk. This position hedged substantially all of the distributable cash flow from Richards US for the 2006 year.

Richards Packaging is exposed to interest rate risk in the event of fluctuations in LIBOR and the bank's prime rate as the interest rates on the revolving credit facility, acquisition facility and term loans are dependent on the bank's prime rate. Richards Packaging had entered into interest rate swap contracts with approved creditworthy counterparties to manage current and anticipated exposure to interest rate risk through April 1, 2006 on a notional principal amount equal to U.S.$18.2 million. The unwinding of the fair value of the interest rate swap contract as at December 31, 2005 gave rise to a loss of $0.2 million during the 2006 year. Management continues to monitor interest rates and will execute a swap when it deems appropriate to do so.

Commitments and contractual obligations

	Total	< 1 year	1-3 years	4-5 years	Thereafter
	$	$	$	$	$
Bank debt	35,027	40	34,987	—	—
Patents and trademarks	400	200	200	—	—
Annual bonus plans	801	653	148	—	—
Operating leases	8,108	2,855	4,153	578	522
	44,336	3,748	39,488	578	522

A potential 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[5]

Management believes that the performance of Richards Packaging is on track to meet ongoing requirements for working capital, capital expenditures and to sustain monthly distributions to unitholders at the current levels for the remainder of the year.

The Fund realized a $2.6 million EBITDA[1] improvement from acquisition integration and improvements in its baseline operations. Management will continue to focus its attention on achieving operational improvements during 2007 and will re-launch its acquisition strategy. This acquisition strategy is expected to result in a compounded growth rate in distributable cash flow[2] in excess of 7.5% in order to allow the Fund to maintain distributions for 2011 and beyond at the current levels.

The cash income tax expense is expected to remain at the 2006 level of $0.8 million. Based upon Richards Canada's current tax profile we expect to have approximately $2 million of loss carry forwards which will fully shield taxes in 2011. However, in 2011 the new 31.5% tax on distributions, net of return of capital, will take effect if current proposed legislation passes.

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, patent and trademark challenges, inventory obsolescence, trade risks, resin price and exchange rate fluctuations, interest rate volatility 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 2006 Annual Information Form dated March 6, 2007.

Growth through acquisition

Richards Packaging's business strategy contemplates growth through strategic acquisitions similar in nature to those completed during 2004 and 2005. However, there can be no assurance that other attractive candidates will be found or that they would be integrated successfully. Furthermore, the access to capital markets is critical to continuing this strategy and that depends heavily on prevailing sentiment in the financial markets.

Leverage and restrictive covenants

Richards Packaging's ability to make scheduled payments of interest or to refinance will depend on its leverage and future cash flow, which is subject to the operational performance, prevailing economic conditions, 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. A failure to comply with the 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.

Income taxes

During 2006, the Federal Minister of Finance announced proposed changes that may significantly affect the taxation of the Fund beginning in 2011. The proposed changes will result in a two-tiered tax structure similar to that of corporations whereby the taxable portion of distributions would be subject to income tax payable by the Fund at a rate of 31.5%, and such distributions will be treated as if they were dividends to the unitholders. However these tax changes would take immediate effect if the Fund were to grow, through the issuance of units and/or convertible debt, in excess of $50 million per year. There is no assurance that these changes will be enacted in the manner proposed.

Richards Canada's capital structure incorporates significant amounts of inter-company debt with Richards US. There is a risk that the U.S. Internal Revenue Service could successfully challenge our treatment of these note indentures as debt, in which case the associated interest would no longer be deductible.

Transactions with Related Parties

Richards Packaging leased four of its facilities in 2006 from various former owners of Richards Packaging, or a subsequently acquired company, who are currently officers or unitholders. Two of these facilities are currently not owned by such officers. Some of the same officers provided loans associated with the sales of their companies, which were repaid during the 2005 year. 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 6, 2007, the Fund had 10,256,327 Units and Holdings had 524,685 exchangeable shares outstanding, respectively. See notes 9 and 10 of the attached consolidated financial statements for further discussion on the terms of the Units and exchangeable shares.

Critical Accounting Estimates

The preparation of the consolidated financial statements in conformity with Canadian generally accepted accounting practices requires the Fund to make estimates and assumptions which affect the reported, and disclosure of contingent, amounts for assets and liabilities as at December 31, 2006 and revenue and expenses for the year then ended. Critical accounting estimates used in the preparation of the consolidated financial statements are outlined below.

Allowance for doubtful accounts

Richards Packaging maintains an allowance for doubtful accounts which 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, 2006 is sufficient to cover the risks inherent in the outstanding receivables.

Inventory obsolescence

Richards Packaging monitors the future demand for its inventory on a product-by-product basis, aging and the prevailing demand conditions in local markets to record an allowance for obsolescence. Based upon this review, management believes the obsolescence provision is adequate to cover the risks inherent in the inventory on hand as at December 31, 2006.

Intangible assets

The Fund has recognized an intangible asset of $47.7 million as at April 7, 2004, $3.3 million as at November 30, 2004 and $2.3 million as of July 29, 2005 pertaining to the future customer relationships that are not under long-term contract but their buying pattern in the past indicates a long-term relationship. 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, the Fund recognized patent and trademark intangible assets of $4.1 million as of December 31, 2005 and $0.3 million as of December 31, 2006 pertaining to Dispill. These non-cash assets, and the associated $14.8 million future income tax liabilities as at December 31, 2006, will be amortized to income over 10 to 12 years. It should be noted that although these items affect the net income recorded by the Fund, they do not impact distributable cash flow[2] available to unitholders.

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. At December 31, 2006 management evaluated goodwill for possible impairment and determined its fair value exceeds the carrying amount.

New Accounting Pronouncements

The following are a number of recently issued accounting standards that may affect the Fund in the quarter ending March 31, 2007. The Fund is currently evaluating the above standards and cannot reasonably determine the effect at this time.

Financial Instruments – Recognition and Measurement

This new standard prescribes when a financial asset, financial liability or non-financial derivative is to be recognized on the balance sheet and at what amount, sometimes using fair value, other times using cost-based measures. It also specifies how financial instrument gains and losses are to be presented.

Hedges

This new standard is applicable whenever a company chooses to designate a hedging relationship for accounting purposes. It builds on existing Accounting Guideline 13, "Hedging Relationships" ("AcG-13") and Section 1650, "Foreign Currency Translation", by specifying how hedge accounting is applied and what disclosures are necessary when it is applied.

Comprehensive Income

This new pronouncement introduces new standards for the reporting and display of comprehensive income. Comprehensive income is the change in equity (net assets) of an enterprise during a reporting period from transactions and other events and circumstances from non-owner sources. It includes all changes in equity during a period except those resulting from investments and distributions to owners.

Equity

This new standard replaces Section 3250, "Surplus". It establishes standards for the presentation of equity and changes in equity during a reporting period.

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 of internal controls over financial reporting as of December 31, 2006 and have concluded that such controls and procedures are adequate and effective. There have been no changes in the Fund's internal controls over financial reporting during the quarter ended December 31, 2006 that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting.

Additional Information

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

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1 *Management defines EBITDA as earnings before amortization, interest, 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 Fund's method of calculating EBITDA may not be comparable to similar measures presented by other companies or income trusts.*

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

3 *Management defines payout ratio as distributions and dividends declared over distributable cash flow[2]. The objective of presenting this measure is to calculate the percentage of actual distributions in comparison to the amount available for*

distribution. Payout ratio does not have a standardized meaning prescribed by GAAP. The Fund's method of calculating the payout ratio may not be comparable to similar measures presented by other income trusts.

4 *Management defines EV as enterprise value. The private equity standard multiple of EBITDA is 8 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. The risks and uncertainties include, among other things, changes in customer and supplier relationships 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 various 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.*