MANAGEMENT'S DISCUSSION AND ANALYSIS

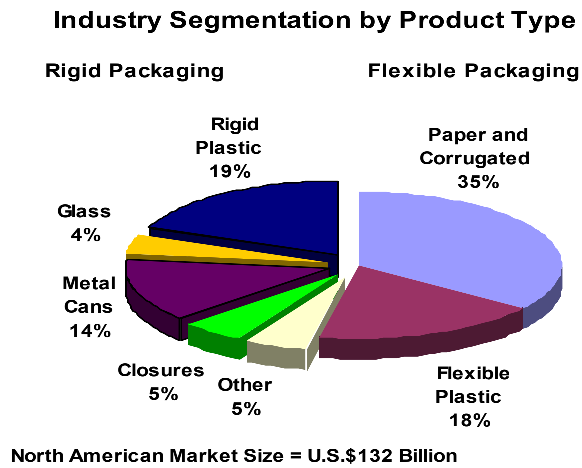
(*expressed in thousands, except where otherwise indicated and per Unit amounts*)

March 4, 2008

This management's discussion and analysis of Richards Packaging Income Fund ("MD&A") for the 2007 year should be read in conjunction with the attached audited consolidated financial statements for the year ended December 31, 2007, the quarterly reports for the periods ended March 31, June 30 and September 30, 2007, and the Annual Information Form dated March 4, 2008. 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.

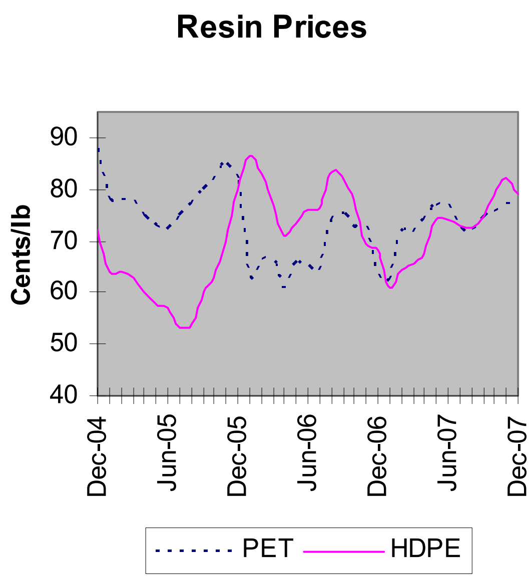
North American Packaging Industry

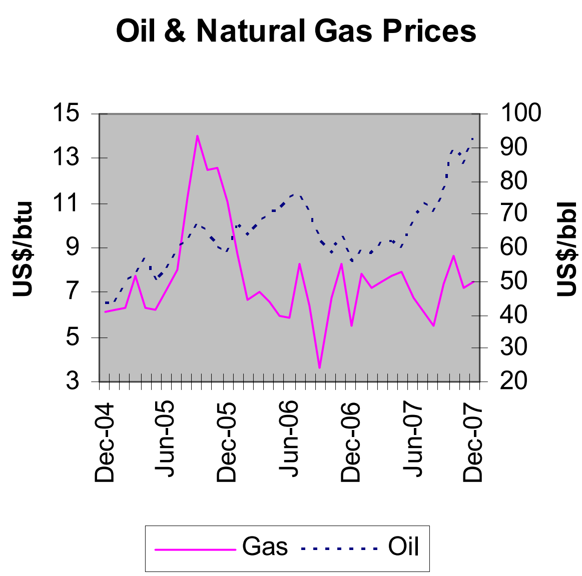
Packaging is pervasive, as almost all products are delivered in some form of packaging. The properties of packaging fulfils not only the practical, transportability, protection functions and shelf life, but also serves to differentiate products and communicate branding messages such as quality, safety 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 2007 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 2007 there were over 380 acquisitions in the global packaging industry, up 10% over 2006 with an average value of U.S.$85 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 $2.1 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 such as Owens Illinois' sale to Rexam. 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 2007, oil and natural gas prices continued to climb increasing approximately 60% and 30%, respectively. Resin prices followed suit increasing 20% for the year with traditional summer market softening not experienced due to supply disruptions. 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 2007.





PET – Polyethylene terephthalate; HDPE – High Density Polyethylene

Description of the Business and Fund Profile

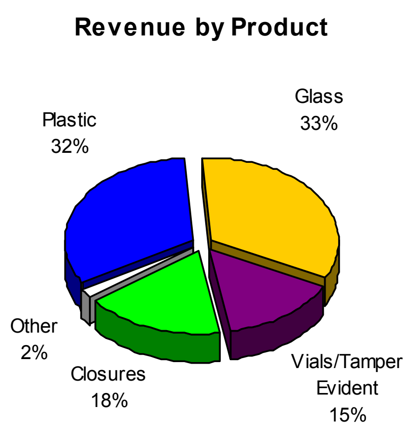
Within the North American Packaging Industry a $3 billion distributor-based market for rigid packaging exists to serve regional small- to medium-sized premium product marketers. Approximately 60 distributors provide marketing and package design expertise, source multiple packaging components from around 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 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.

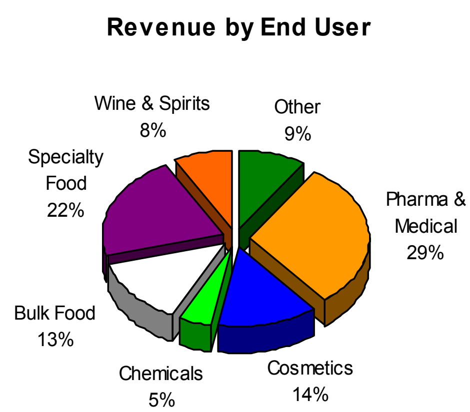
Richards Packaging serves a wide customer base that is comprised of over 9,000 regional food, beverage, cosmetic, specialty chemical, pharmaceutical and other companies. The primary source of revenue is from the distribution of over 5,000 different types of packaging containers and related components sourced from over 600 suppliers and its three dedicated manufacturing facilities. Sales from these manufacturing facilities represent 19% 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

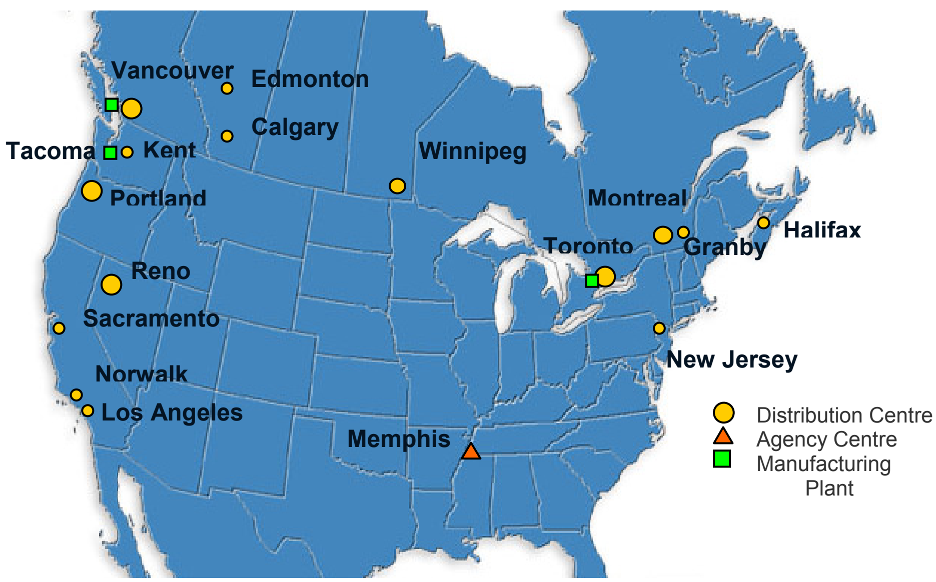
March 4, 2008





Asian glass up 4% concurrent with 3% increase in wine and spirits; cosmetics and closures up 3% due to McKernan acquisition; and plastic down 3% with optimization of concentration of large customers

Richards Packaging Locations



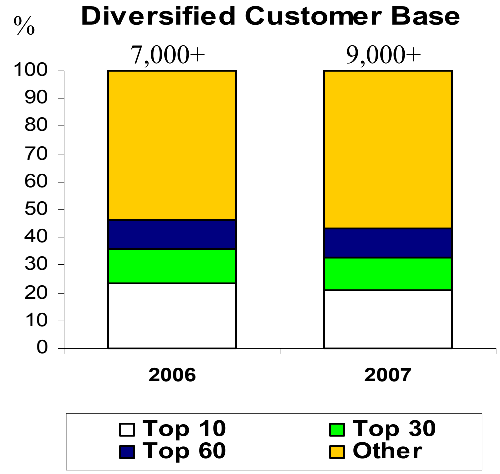
MANAGEMENT'S DISCUSSION AND ANALYSIS

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

March 4, 2008

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 2007, 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 through the Richards US operations and The E.J. McKernan Co. ("McKernan") to take advantage of higher growth opportunities relative to the Canadian marketplace as fillers 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.

Highlights and Selected Financial Information

Highlights of the overall performance for the 2007 year include:

- Revenue growth of 6% in the US offset by contraction in Canada of 5%,
- EBITDA[1] as a percentage of sales remains above 11%,
- Completed the acquisition of McKernan, at a purchase price of U.S.$30.0 mil.,
- Acquisition financed by U.S.$18.0 mil. bank borrowing and exchangeable share issues,
- Working capital increase reflects the McKernan acquisition and offshore purchasing,
- Set a fixed interest rate hedge to June 2009 on U.S.$30.0 million,
- Paid monthly distributions of 9.35¢ per Unit to yield a 12.1% annualized return (@$9.25/Unit)
- Launched Unit buyback in November purchasing 25,300 (@$9.25/Unit) for cancellation, and
- Maintained distributable cash flow[2] of $1.17 per Unit. Given the annual distributions declared of $1.12 per Unit, the implied payout ratio[3] was 96%.

Richards Packaging Income Fund

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

March 4, 2008

The MD&A covers the three months ended December 31, 2007, the 12 months ended December 31, 2007 and 2006 (generally referred to in this MD&A as the "fourth quarter", the "2007 year" and the "2006 year" respectively). The following table sets out selected consolidated financial information:

	Qtr. 1		Qtr. 2		Qtr. 3		Qtr.4		12 months		
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2005
	$	$	$	$	$	$	$	$	$	$	$
Income Statement Data:											
Revenue	**40,333**	**40,053**	**39,830**	**39,662**	**38,064**	**38,966**	**39,781**	**40,324**	**158,008**	**159,005**	**165,280**
EBITDA[1]	**4,381**	**4,362**	**4,347**	**4,408**	**4,085**	**4,637**	**4,861**	**4,399**	**17,674**	**17,806**	**15,225**
Diluted per Unit	*40.6¢*	*40.5¢*	*40.3¢*	*40.9¢*	*37.9¢*	*43.0¢*	*41.9¢*	*40.8¢*	*$1.61*	*$1.65*	*$1.41*
Net income	**2,056**	**1,587**	**3,905**	**3,606**	**3,313**	**1,930**	**2,006**	**1,387**	**11,280**	**8,510**	**6,871**
Diluted per Unit	*20.0¢*	*15.5¢*	*38.1¢*	*35.2¢*	*32.3¢*	*18.8¢*	*17.3¢*	*13.5¢*	*$1.08*	*$0.83*	*$0.67*
Balance Sheet Data:											
Total assets	**149,943**	**162,611**	**147,127**	**157,266**	**143,476**	**154,475**			**179,905**	**154,791**	**162,819**
Bank debt	**34,645**	**37,078**	**31,950**	**34,739**	**31,127**	**33,538**			**48,656**	**35,027**	**37,052**
Cash Flow Statement Data:											
Distributions	**3,024**	**3,024**	**3,024**	**3,024**	**3,024**	**3,024**	**3,256**	**3,024**	**12,328**	**12,096**	**12,096**
Diluted per Unit	*28.1¢*	*28.1¢*	*28.0¢*	*28.0¢*	*28.0¢*	*28.0¢*	*28.1¢*	*28.1¢*	*$1.12*	*$1.12*	*$1.12*
Payout ratio[3]	*98%*	*91%*	*97%*	*93%*	*95%*	*92%*	*93%*	*96%*	*96%*	*93%*	*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 96% for the 2007 year was 3% higher than the 2006 year however; this payout ratio has improved each quarter throughout the 2007 year. The payout ratio is expected to improve to approximately 90% given the accretive nature of the McKernan acquisition[5]. Approximately one-half of the surplus distributable cash available from the 2007 year was deployed in our Unit buyback program.

Review of Operations

Richards Packaging's operations were approximately two-thirds in Canada ("Richards Canada") and one-third in the United States ("Richards US"). Approximately one-half of Richards Packaging's sales are concentrated in Toronto, Montreal and Vancouver and one-quarter in Los Angeles, Seattle and Portland. The impact of the depreciating U.S. dollar crossed an inflection point early in 2007 resulting in growth of 6% in our US operations while our Canadian operations contracted by 5%. Accordingly the focus of our acquisition program was on foreign opportunities. With the McKernan acquisition, our US operations will grow to represent approximately one-half for 2008[5].

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

	Qtr. 1		Qtr. 2		Qtr. 3		Qtr. 4		12 months		
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2005
	$	$	$	$	$	$	$	$	$	$	$
Revenue	40,333	40,053	39,830	39,662	38,064	38,966	39,781	40,324	158,008	159,005	165,280
Cost	33,621	33,366	33,192	33,023	31,566	32,066	32,551	33,546	130,930	132,001	140,960
Gross profit	6,712	6,687	6,638	6,639	6,498	6,900	7,230	6,778	27,078	27,004	24,320
	16.7%	*16.7%*	*16.7%*	*16.7%*	*17.1%*	*17.7%*	*18.2%*	*16.8%*	*17.1%*	*17.0%*	*14.7%*
Expenses	2,326	2,288	2,266	2,236	2,463	2,230	2,545	2,347	9,600	9,101	9,253
LTIP [a)]	42	33	42	33	24	32	(13)	32	95	130	96
FX [a)]	(37)	4	(17)	(38)	(74)	1	(163)	—	(291)	(33)	(254)
EBITDA[1]	4,381	4,362	4,347	4,408	4,085	4,637	4,861	4,399	17,674	17,806	15,225
	10.9%	*10.9%*	*10.9%*	*11.1%*	*10.7%*	*11.9%*	*12.2%*	*10.9%*	*11.2%*	*11.2%*	*9.2%*
Amortization	1,964	2,116	1,946	2,123	1,947	2,116	2,162	2,075	8,019	8,430	8,400
Interest	796	662	770	839	745	796	910	748	3,221	3,045	2,312
UFI [a)]	(372)	209	(2,685)	(1,502)	(2,013)	9	751	1,499	(4,319)	215	(1,177)
Income tax	(168)	(293)	211	(843)	(77)	(312)	(1,103)	(1,381)	(1,137)	(2,829)	(1,533)
NCI [a)]	105	81	200	185	170	98	135	71	610	435	352
Net Income	2,056	1,587	3,905	3,606	3,313	1,930	2,006	1,387	11,280	8,510	6,871

a) LTIP=long-term incentive plan, FX=*foreign currency losses/(gains) from operations*, UFI=*unrealized losses/(gains) on financial instruments, NCI=non-controlling interests.*

Revenue decreased by $0.5 million, or 1.3%, for the fourth quarter, and by $1.0 million, or 0.6%, for the 2007 year (2006 – $6.3 million, or 3.8%), from the same periods in 2006, respectively. During the fourth quarter, organic growth and revenue from McKernan of $1.9 million, or 4.7% (2006 – $0.6 million) were fully offset by the exit from non-strategic customers, which represented $0.7 million (2006 – $0.6 million) and the $1.7 million translation impact of Richards US with the Canadian dollar strengthening 14.1¢ to U.S./Cdn.$1.02 (2006 – $0.5 million). For the 2007 year, organic growth and revenue from McKernan of $4.2 million, or 2.6% (2006 – $0.5 million decrease), was more than offset by the $2.5 million translation impact of Richards US with the Canadian dollar strengthening 4.9¢ to U.S./Cdn.$0.93 (2006 – $4.3 million) and the exit from non-strategic customers of $2.7 million (2006 – $1.5 million).

Exchange translation continues to put pressure on the revenue line with the appreciating U.S./Cdn.$ exchange rates. Its impact for the fourth quarter was relatively high compared to the first three quarters and is expected to continue throughout 2008 at approximately $3 million for the year based on exchange rates at par. In addition, in a highly inflationary resin environment, Richards Packaging experiences a slight rise in the customer turnover rate and lower net organic growth; however, it is our view that the U.S./Cdn.$ exchange rate appreciation and inflation will subside and revenue growth will return to the historic rate of between 1 to 3% per annum[5].

Cost of products sold decreased by $1.0 million for the fourth quarter, or 3.0%, and by $1.1 million for the 2007 year, or 0.8% (2006 - $9.0 million, or 6.4%), from the same periods in 2006, respectively. On going profit improvements, including the reduction of warehouse space in the Toronto area and staffing improvements, resulted in lower selling and distribution costs and gross margin increases of 1.4% during the fourth quarter and 0.1% for the 2007 year (2006 - 2.3%), from the same periods in 2006, respectively. 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.

General and administrative expenses increased $0.2 million for the fourth quarter and $0.5 million for the 2007 year (2006 – decreased $0.2 million), over the same periods in 2006, respectively mainly due to the additional expenses from the McKernan organization and internal financial reorganization costs. The reorganization costs of $0.1 million for the fourth quarter and $0.3 million for the 2007 year relate to one time fees incurred in an internal financial reorganization to facilitate U.S. acquisitions. The foreign exchange gain from operations results from exchange rate changes applied to our U.S. denominated working capital position within our Canadian operations.

EBITDA[1] increased by $0.5 million for the fourth quarter and decreased by $0.1 million for the 2007 year (2006 – increased $2.6 million), over the same periods in 2006, respectively. As a percent of sales, EBITDA was at 12.2% for the fourth quarter and 11.2% for the 2007 year (2006 – 11.2%). Changes were due to the factors outlined above, namely the one time costs associated with the internal reorganization along with additional general and administrative expenses 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 $2.2 million for the fourth quarter was mainly comprised of $1.5 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 (previously amortization of deferred financing fees) and capital asset amortization of $0.6 million per quarter, which annualized, is approximately twice Richards Packaging's annual maintenance capital expenditure spending requirement.

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, 2007 totaled U.S.$30.0 million, which gave rise to an unrealized gain of $0.2 million for the fourth quarter. The acquisition credit of U.S.$18.0 million was drawn at U.S./Cdn.$1.053 which resulted in an unrealized loss of $0.7 million. 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 50 bps during the quarter. For the 2007 year, unrealized foreign currency gains were $4.6 million and together with the loss on the fixed interest rate swap noted above, net unrealized gains were $4.3 million. On December 31, 2006 the exchange rate was U.S./Cdn.$0.858, while during the period it increased as high as U.S./Cdn.$1.053 and closed on December 31, 2007 at U.S./Cdn.$1.012. 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. It is management's intention to continue to borrow funds denominated in U.S. dollars for the foreseeable future[5].

Current income taxes reflect the tax deductions inherent in distributions to unitholders. For the 2007 year, current income taxes were $0.8 million (2006 - $0.8 million) representing tax leakage predominately for Richards Packaging's subsidiaries in the US. Future income tax recoveries for the 2007 year were $2.0 million (2006 – $3.6 million) representing temporary differences due primarily to changes in enacted rates, unrealized gains on financial instruments and the recognition of loss carry forwards. Net future tax assets available to shield income taxes are $2.6 million, which include $1.3 million of initial public offering and financing fees and a loss carry forward of $2.7 million offset by $1.0 million of unrealized gains on financial instruments and $0.4 million of capital assets.

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Net income for the fourth quarter was $2.0 million, and for the 2007 year was $11.3 million, which represented 17.3¢ and $1.10 per Unit on a diluted basis, respectively. A time-weighted average total of 10,253,545 Units and 736,739 exchangeable 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		
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2005
	$	$	$	$	$	$	$	$	$	$	$
Cash provided by operating activities	**1,559**	**3,569**	**3,173**	**5,814**	**1,980**	**5,390**	**2,850**	**3,261**	**9,562**	**18,034**	**5,643**
Working capital changes	**1,728**	**(25)**	**196**	**(2,367)**	**1,347**	**(1,805)**	**783**	**107**	**4,054**	**(4,090)**	**6,788**
Non-cash charges	**1,094**	**818**	**978**	**961**	**758**	**1,052**	**1,228**	**1,031**	**4,058**	**3,862**	**2,794**
	4,381	**4,362**	**4,347**	**4,408**	**4,085**	**4,637**	**4,861**	**4,399**	**17,674**	**17,806**	**15,225**
Reorganization costs	—	—	—	—	**(149)**	—	**(104)**	—	**(253)**	—	—
Interest	**796**	**662**	**770**	**839**	**745**	**796**	**910**	**748**	**3,221**	**3,045**	**2,312**
Cash income taxes	**298**	**156**	**208**	**122**	**13**	**256**	**318**	**283**	**837**	**817**	**(712)**
Maintenance capital.	**205**	**201**	**239**	**195**	**291**	**291**	**240**	**197**	**975**	**884**	**599**
Loan payments	**10**	**10**	**10**	**10**	**10**	**10**	**10**	**10**	**40**	**40**	**56**
Distributable cash flow[2]	**3,072**	**3,333**	**3,120**	**3,242**	**3,175**	**3,284**	**3,487**	**3,161**	**12,854**	**13,020**	**12,970**
Diluted per Unit	*28.5¢*	*30.9¢*	*28.9¢*	*30.1¢*	*29.4¢*	*30.5¢*	*30.0¢*	*29.3¢*	*$1.17*	*$1.21*	*$1.20*
Distributions[a)]	**3,024**	**3,024**	**3,024**	**3,024**	**3,024**	**3,024**	**3,256**	**3,024**	**12,328**	**12,096**	**12,096**
Diluted per Unit	*28.1¢*	*28.1¢*	*28.0¢*	*28.0¢*	*28.0¢*	*28.0¢*	*28.1¢*	*28.1¢*	*$1.12*	*$1.12*	*$1.12*
Payout ratio[3]	*98%*	*91%*	*97%*	*93%*	*95%*	*92%*	*93%*	*96%*	*96%*	*93%*	*93%*
Units purchased	—	—	—	—	—	—	**246**	—	**246**	—	—
Units outstanding on a diluted basis	**10,781**	**10,781**	**10,781**	**10,781**	**10,781**	**10,781**	**11,611**	**10,781**	**10,990**	**10,781**	**10,781**

a) excludes dividends paid of $114 funded with cash acquired on acquisition of McKernan.

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 $7.0 million revolving facility available to Richards Packaging ($1.2 million drawn; 2006 – nil). 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 our U.S.$18.0 million acquisition facility (U.S.$18.0 million drawn; 2006 – nil drawn). Management intends to term out the acquisition borrowings drawn October 31, 2007 in 2008.

Distributable cash flow[2] for the fourth quarter at $3.5 million was $0.3 million higher than the previous three quarters and the same period in 2006 as increased EBITDA[1] was partially offset with higher interest and cash income taxes from the McKernan acquisition. Reorganization costs are added back as they relate to one time costs incurred associated with an internal financial reorganization to facilitate acquisitions in the U.S. Maintenance capital expenditures comprised primarily of moulds were higher than target for the fourth quarter but management continues to believe that the annual target of $0.9 million is appropriate[5].

The distribution for the 2007 and 2006 years at $1.122 per Unit represents an annual yield of 12.1% on a $9.25 price per Unit and a payout ratio[3] of 96% (2006 – 93%). Based upon the 2007 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 $0.4 million for the fourth quarter and $8.5 million for the 2007 year. The decrease in cash flow from operations prior to working capital changes was $0.3 million for the 2007 year. The working capital change of $4.0 million was the result of an increased inventory investment of $2.1 million and prepaids of $1.3 million to invest in our Asian glass program to support growth in the U.S. and avoid the disruption associated with the Chinese New Year. The increase in prepaids meant a shift in our payables resulting in a further working capital increase of $1.0 million. Management expects these investments to pay dividends in the form of higher sales over the next two quarters[5].

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 2007 year were $12.3 million with an additional $1.1 million declared for December, which was paid January 15th.

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 year, 25,300 Units were purchased at an average price of $9.25 per Unit.

Cash income taxes

The cash income tax expense for the 2007 year was $0.8 million (2006 - $0.8 million) predominately made up of current income tax for Richards Packaging subsidiaries in the United States. The loss carry forwards in Richards Packaging ensure that income tax leakage will be limited to Richards Packaging subsidiaries in the United States until the new tax imposed upon publicly traded income trusts takes effect in 2011[5].

Capital expenditures

Capital expenditures for the 2007 year were $1.2 million, mainly on account of maintenance capital (2006 - $0.9 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 of $0.2 million were mainly incurred on new customer programs and their associated business lines.

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 aggregate purchase price, subject to adjustment, 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 for McKernan was funded through the issuance of shares exchangeable into 1,052,632 Units of the Fund indirectly to Mr. McKernan, who is continuing in his role as President of the organization.

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

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 $7.0 million in revolving debt to fund working capital expansion and up to U.S.$18.0 million for expansion capital and/or acquisition financing. During the 2007 year, the revolving and acquisition facilities were increased in order to facilitate the acquisition of McKernan. 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.

The revolving debt and acquisition facilities are annual in nature and will be up for renewal on June 3, 2008. Management is confident that these facilities will be renewed with the current lending syndicate and the acquisition financing will be added to the term debt to reset the acquisition facility. Combined with cash flow from operations, management believes that adequate financing will be available for the foreseeable future[5].

Approximately 33% of distributable cash flow[2] for the 2007 year was provided by Richards Packaging subsidiaries in the United States (2006 – 27%). This represents a 6% increase over the prior year as significant growth experienced in Richards US, including the acquisition of McKernan, was offset by a reduction in our larger Canadian customers' exports due to the strengthening Canadian dollar. As a consequence, the interest on the U.S. denominated debt and dividends on the U.S. denominated exchangeable shares negate approximately 60% of the inherent foreign currency exchange risk (2006 – 90%). Management will explore hedging strategies to address this increase in exposure.

Richards Packaging is exposed to interest rate risk due to variable interest rates on the revolving credit facility, acquisition facility and term loans. During 2007, Richards Packaging entered into interest rate swap contracts with approved creditworthy counterparties to June 5, 2009 on a notional principal amount equal to the U.S.$30 million term debt outstanding. The mark-to-market valuation of the swap contracts as at December 31, 2007 gave rise to an unrealized loss of $0.3 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.

Commitments and contractual obligations

	Total $	< 1 year $	1-3 years $	4-5 years $	Thereafter $
Bank debt	**48,656**	**19,013**	**29,643**	**—**	**—**
Due to previous shareholder	**779**	**779**	**—**	**—**	**—**
Patents and trademarks	**400**	**200**	**200**	**—**	**—**
Annual bonus plans	**881**	**573**	**308**	**—**	**—**
Operating leases	**14,924**	**3,129**	**4,700**	**1,091**	**6,004**
	65,640	**23,694**	**34,851**	**1,091**	**6,004**

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.

EBITDA[1] for the fourth quarter was $4.9 million and $17.7 million for the 2007 year and continues to track at levels exceeding 11% of revenue. Management will continue to focus its attention on achieving operational improvements during 2008 and integrate the McKernan operation to drive this level up even further. Management's strategy is to deliver 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 be $1.8 million in 2008 due to the growth in Richards US operations. 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.

The impact of the McKernan acquisition on surplus distributable cash[2] for 2008 is expected to be approximately $1 million. We intend to deploy these funds, partially, in our Unit buy back program.

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 2007 Annual Information Form dated March 4, 2008.

Growth through acquisition

Richards Packaging's business strategy contemplates growth through strategic acquisitions similar in nature to those completed during the past few years. 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 leverage and future cash flow, which is subject to 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. 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.

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 Packaging subsidiaries in the United States, 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 2007 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 4, 2008, the Fund had 10,231,027 Units and Holdings had 1,793,533 exchangeable shares outstanding, respectively. See notes 11 and 12 of the attached consolidated financial statements for further discussion on the terms of the Units and exchangeable shares.

Critical Accounting Estimates

Preparation of the consolidated financial statements in conformity with Canadian generally accepted accounting practices requires Management to make estimates and assumptions which affect the reported, and disclosure of contingent, amounts for assets and liabilities as at December 31, 2007 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

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, 2007 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, 2007.

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[2].

Goodwill

Goodwill represents the excess purchase price of acquired businesses over the estimated fair value of the net assets acquired. Goodwill is not amortized but is reviewed for impairment annually or more frequently if impairment indicators arise. At December 31, 2007 management evaluated goodwill for possible impairment and determined its fair value exceeds the carrying amount.

Change in Accounting Policies

Effective January 1, 2007 the Canadian Institute of Chartered Accountants Handbook Section 1530 *Comprehensive Income,* Section 3251 *Equity* and 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 or losses from translation of Richards Packaging subsidiaries in the United States during the periods were added to the comprehensive income statement as "other comprehensive loss" and cumulative translation adjustment included in unitholders' equity has been renamed "accumulated other comprehensive loss".

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 debt bears interest at variable rates there was no material impact on current or prior periods. Deferred financing fees were recorded as a reduction of long-term debt as of January 1, 2007 and will be amortized over the period ending June 5, 2009 as debt accretion utilizing the effective interest rate method.

New Accounting Pronouncements

The following is a recently issued accounting standard that may affect the financial statements of the Fund in the quarter ending March 31, 2008. Management is currently evaluating the standard and cannot reasonably determine the effect at this time.

Inventory

This new standard prescribes the accounting treatment for inventory. This section provides guidance on the determination of cost and its subsequent recognition as an expense, including any write-down and subsequent write-up to net realizable value. It also provides guidance on the cost formulas that are used to assign costs to inventory.

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, 2007 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, 2007 that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting. During the fourth quarter, Richards Packaging acquired a new business and will continue to assess the design of internal controls over financial reporting. It has not identified in its' review to date any weakness that has materially affected, or that is reasonably likely to materially affect, the controls over financial reporting.

Additional Information

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

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 10 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.*