

Richards Packaging Income Fund

MANAGEMENT'S DISCUSSION AND ANALYSIS

March 4, 2011

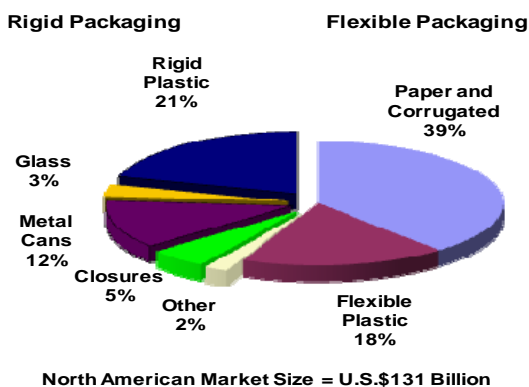
Cdn\$ thousands

This management's discussion and analysis of Richards Packaging Income Fund ("MD&A") for the 2010 year should be read in conjunction with the attached audited financial statements for the year ended December 31, 2010, the quarterly reports for the periods ended March 31, June 30 and September 30, 2010 and the Annual Information Form dated March 4, 2011. 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.

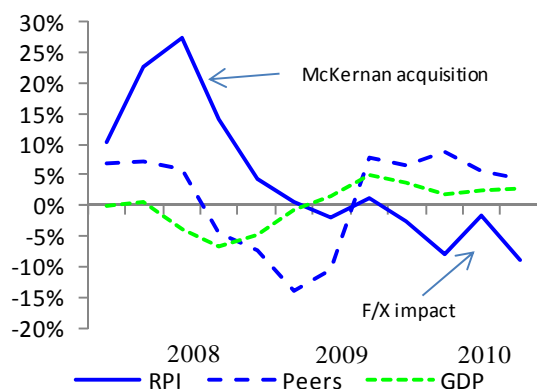
North American Packaging Industry

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. Markets rebounded in 2010 growing 7% with beverage, restaurant and fast-food packaging recovering.

Industry Segmentation by Product Type



Revenue growth



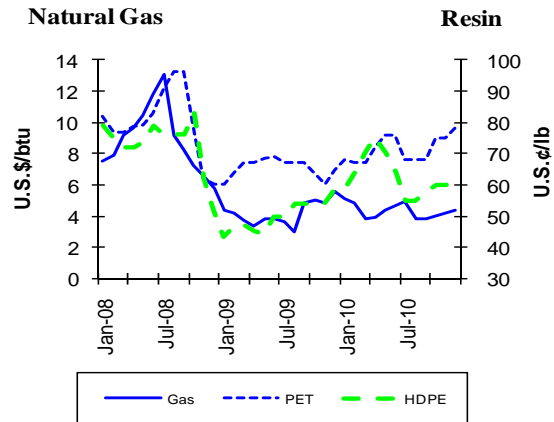
As large product marketers have consolidated, packaging companies have embarked on a parallel industry consolidation strategy to meet their needs. Concentration is high in the glass, metal and paper segments with two to five companies controlling approximately 90% of their market and concentration is medium in the rigid plastic, flexible plastic and closure segments with 10 to 15 companies controlling 50% to 60% of their market. In 2010 there were over 226 acquisitions in the global packaging industry, up 35% over 2009 but well below the 380 level of 2007, with an average value of U.S.\$66 million at a median multiple of 7.0 times EBITDA¹ (2009 – 6.1). During 2010, the top 20 companies continued to spend on capital at the cautious rate of 4% of revenue. At the same time, excess capacity is continually being addressed with divestitures by conglomerates.

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Energy prices continue to be a major factor for the industry affecting glass furnace economics, resin costs and freight costs. In 2010, resin and natural gas prices were extremely volatile testing new lows before recovering in line with long term values. Resin prices were more driven by supply and demand with low PET inventory levels providing stable prices while high HDPE inventory levels resulted in more volatility. 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 14% overall for 2010.



PET – Polyethylene terephthalate; HDPE – High Density Polyethylene

Description of the Business and Fund Profile

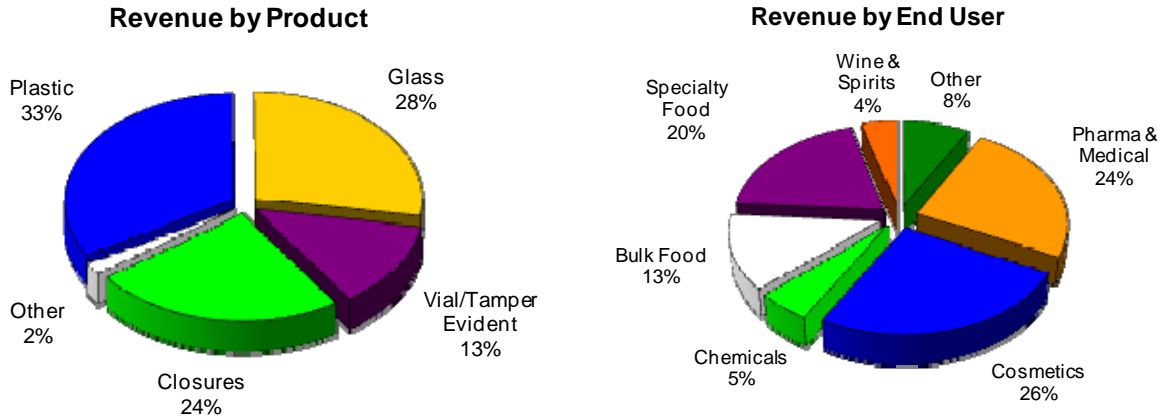
Within the North American Packaging Industry a \$3 billion distributor-based market for rigid packaging exists to serve regional small- to medium-sized premium product marketers. Approximately 50 distributors provide marketing and package design expertise, source multiple packaging components from around the world, aggregate orders ensuring access to large manufacturers and provide inventory and logistics support to deliver a complete packaging solution. Concentration in this segment is low with the top five companies controlling approximately 40% of their market. Richards Packaging Inc. and its subsidiaries (“Richards Packaging”) is the largest packaging distributor in Canada and the third largest in North America. Other distributors consist mainly of local or regional family-owned companies who specialize to meet the unique needs of their customers.

Richards Packaging serves a wide customer base that is comprised of approximately 11,000 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 15% 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 17 sales offices and one agency location.

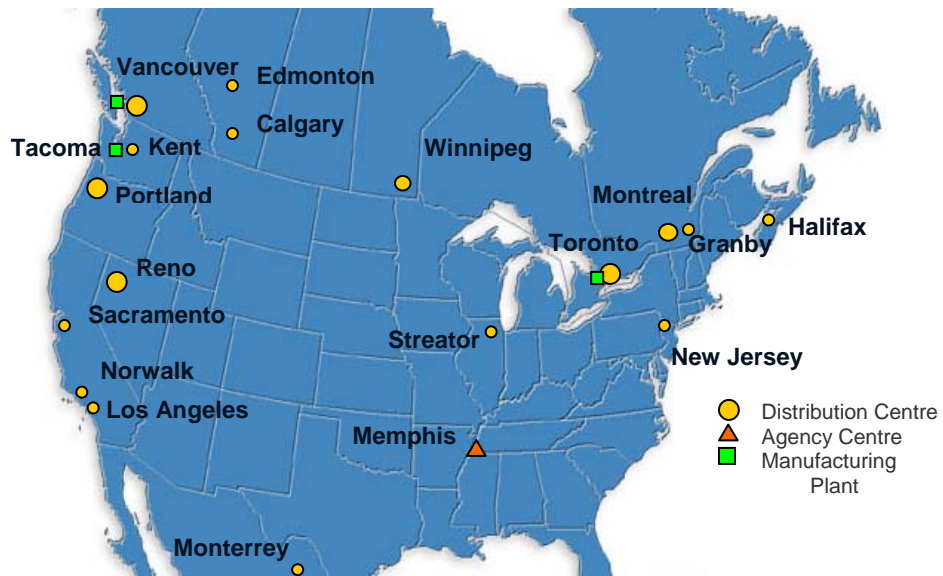
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Richards Packaging Locations



Richards Packaging Income Fund

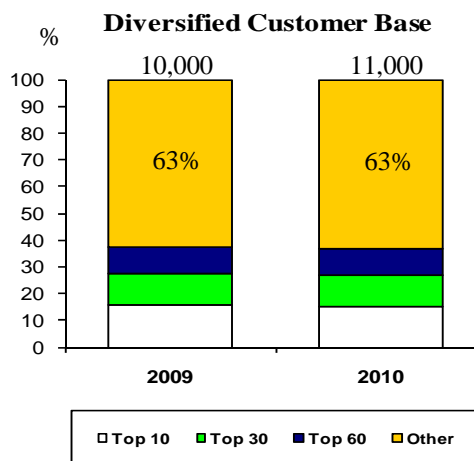
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The cornerstones of Richards Packaging's strategy include:

- Focusing on a diversified customer base dominated by small regional premium product marketers,
- Providing a complete one-stop source of packaging solutions,
- Being one of the largest distributors of European and Asian glass for the specialty food, wine and spirits markets,
- Being the largest supplier of packaging to the prescription drug and pharmaceutical markets in Canada,
- Being the largest distributor of surplus packaging, and
- Being the only major distributor with dedicated in-house plastics manufacturing capability.



During 2010, management continued to strategically reposition Richards Packaging in the marketplace to optimize the concentration of large customers and focus on customers with the highest value for the unique product offering and services we provide. The concentration of our top 60 customers was reduced in 2010 by \$4 million (2009 – \$2 million) which was partially offset by the \$3 million growth in small customers (2009 – \$4 million). Due to the F/X drop of \$8.7 million in revenue, the overall ratio of small customers remained at 63%.

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 91% due to issuance of shares exchangeable into Units in order to facilitate the financing of two acquisitions and purchases under our normal course issuer bid.

Impact of Changes in Financial Markets

The global economic downturn that began in late 2008 continued in both 2009 and 2010 which impacted the foreign exchange and credit markets and the economic climate.

Foreign Exchange

During the fourth quarter of 2008, the exchange rate decreased dramatically by U.S./Cdn. 13¢. Since Richards Packaging's debt was denominated in US dollars (primarily to match the interest expense with US denominated cash flows), this exchange rate decrease caused an increase of \$8.6 million on a Cdn. equivalent basis and the leverage ratio to grow by 0.4x up to 2.8x debt to EBITDA¹ and together with the degradation in the Unit price, prohibited any further growth through acquisition. As a result, the Fund immediately shifted away from its acquisition strategy and normal course issuer bid and Richards Packaging focused on deploying excess cash flow to reducing debt beginning

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with a U.S. \$1 million repayment on November 30, 2008. By the third quarter of 2009, exchange rates had fully recovered the 2008 fourth quarter drop. This led to the Fund's decision to convert the debt into Cdn.\$ denomination and revert to its initial strategy.

Credit Markets and Interest rates

With the unraveling of the sub-prime lending market came the eventual tightening in credit markets in mid-2008 at a time when the acquisition debt facility was up for renewal. This tightening, although in the early stages of the eventual financial market meltdown, led to a 0.75% increase in 2008. This would later increase 1.0% as we were required to reset our leverage covenant due to the foreign exchange induced increase in the leverage ratio. The increases in interest rates have been fully mitigated by dramatic declines in short-term interest rates. During the fourth quarter of 2009, the leverage ratio improvement resulted in 0.5% reduction in borrowing costs.

(\$ millions)	2008	2009	2010
INTEREST RATES	2.8%	0.4%	0.8%
Impact on Interest	(1.3)	(1.2)	0.2
F/X - U.S./Cdn.\$	0.94	0.88	0.97
Impact on:			
Revenue	1.5	6.4	(8.7)
EBITDA	0.2	1.1	(1.3)

Economic Recession

During the fourth quarter of 2008 and first half of 2009, the gross domestic product in the United States and Canada dropped by a maximum of 6.1% and 7.3%, respectively. During the fourth quarter of 2009, both economies bounced back with growth of 5.7% and 5.0%, respectively. Overall for 2009, this slowed the organic growth rate in our US operations to 7.0% and led to a 10.0% reduction in our Canadian operations.

Highlights and Selected Financial Information

Highlights of the overall performance for the 2010 year include:

- Revenue shrinkage of 5.3%, mainly due to the foreign currency translation of Richards Packaging US,
- EBITDA¹ down \$0.8 mil. representing 12.0% of sales, or a 13.1% return on total assets,
- Interest expense reduced by \$1.3 mil. offset by \$0.6 mil. financing fees,
- Current income taxes down \$1.2 mil. due to lower Richards Packaging US earnings and the double depreciation relief program in the US,
- Net income down \$5.1 mil. due primarily to the absence of gains on financial instruments,
- Working capital increase of \$6.0 mil. – \$5.0 mil. increase in inventory,
- Term debt refinanced on May 31 for three years to 2013,
- Purchased 62,736 Units (@\$7.25/Unit) under our Normal Course Issuer Bid,
- Paid monthly distributions of 6.55¢ per Unit to yield an 9.0% return (@\$8.75/Unit – Dec 31st),
- Increased distributable cash flow² by 8¢ to \$1.32 per Unit yielding a payout ratio³ of 60%.

The MD&A covers the three and 12 months ended December 31, 2010 and 2009 (generally referred to in this MD&A as the “fourth quarter”, the “2010 year” and the “2009 year” respectively). The following table sets out selected consolidated financial information:

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	Qtr. 1		Qtr. 2		Qtr. 3		Qtr. 4		Calendar Year		
	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2008
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Income Statement Data:											
Revenue.....	45,158	46,417	45,215	49,158	46,744	47,529	41,893	46,008	179,010	189,112	187,316
EBITDA ¹	5,624	5,033	5,568	6,160	5,793	5,916	4,430	5,084	21,415	22,193	22,096
<i>Diluted per Unit</i>	47.6¢	42.3¢	47.2¢	51.7¢	49.1¢	49.7¢	37.5¢	42.8¢	\$1.81	\$1.86	\$1.85
Net income.....	2,455	339	2,117	6,561	2,516	5,400	1,678	1,540	8,766	13,840	(1,629)
<i>Diluted per Unit</i>	24.4¢	3.4¢	21.1¢	64.9¢	25.1¢	53.4¢	16.6¢	15.3¢	\$0.87	\$1.37	-\$0.16
Balance Sheet Data:											
Total assets.....	166,003	188,422	168,120	179,397	167,757	170,236	163,691	167,957	163,691	167,957	189,201
<i>EBITDA/Assets</i>									13.1%	13.2%	11.7%
Bank debt.....	47,459	65,754	47,507	56,302	47,548	48,245	48,000	47,402	48,000	47,402	61,916
<i>Debt/EBITDA</i>	2.1	3.0	2.1	2.6	2.1	2.2	2.2	2.1	2.2	2.1	2.8
Cash Flow Statement Data:											
Distributions ^{a)}	2,334	2,277	2,327	—	2,328	—	2,321	2,348	9,310	4,625	13,482
<i>Diluted \$ per Unit</i>	19.7¢	19.1¢	19.7¢	—	19.7¢	—	19.7¢	19.7¢	\$0.79	\$0.39	\$1.13
<i>Payout ratio</i> ³	60%	71%	57%	—	55%	—	69%	74%	60%	31%	91%
Unit purchases.....	305	—	150	—	—	—	—	309	455	309	1,018

a) presented on a declared basis.

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, losses/(gains) on financial instruments and future income taxes. Factors considered when setting this level included the Income Trust tax beginning in 2011, the current low interest rates and the cash needs of operations. The Fund's payout ratio of 31% for the 2009 year reflects a temporary suspension of distributions beginning March 2009 and a reinstatement in October 2009 at the lower rate of 6.55¢ per Unit.

Review of Operations

Richards Packaging's operations were approximately one-half (2009 – one-half) in Canada and one-half (2009 – one-half) in the United States ("Richards Packaging US"). Approximately one-third of Richards Packaging's sales are concentrated in Toronto, Montreal and Vancouver and one-third in Los Angeles, Seattle, Reno and Portland.

Revenue decreased by \$4.1 million, or 8.9%, for the fourth quarter, and by \$10.1 million, or 5.3%, for the 2010 year (2009 – increase \$1.8 million, or 1.0%), from the same periods in 2009, respectively. During the fourth quarter, revenue decreased on organic shrinkage of \$3.2 million, or 7.1% (2009 – increased \$3.1 million, or 6.8%) due to our customers not repeating the 2009 inventory replenishment program and the translation impact of Richards Packaging US with the Canadian dollar strengthening 4¢ to U.S./Cdn. 99¢ of \$0.9 million (2009 – \$2.5 million). For the 2010 year, the decrease on the translation impact of Richards Packaging US of \$8.7 million due to a U.S./Cdn. 9¢

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strengthening (2009 – weakening \$6.4 million) added to organic revenue contraction of \$1.4 million or 0.8% (2009 – \$4.6 million or 2.5%).

	Qtr. 1		Qtr. 2		Qtr. 3		Qtr. 4		Calendar Year		
	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2008
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Revenue	45,158	46,417	45,215	49,158	46,744	47,529	41,893	46,008	179,010	189,112	187,316
Cost.....	36,940	38,698	37,048	40,457	38,431	38,996	35,095	37,653	147,514	155,804	155,004
Gross profit.....	8,218	7,719	8,167	8,701	8,313	8,533	6,798	8,355	31,496	33,308	32,312
	18.2%	16.6%	18.1%	17.7%	17.8%	18.0%	16.2%	18.2%	17.6%	17.6%	17.2%
Expenses.....	2,538	2,615	2,473	2,692	2,636	2,645	2,418	2,711	10,065	10,663	10,324
FX ^{a)}	56	71	126	(151)	(116)	(28)	(50)	560	16	452	(108)
EBITDA ¹	5,624	5,033	5,568	6,160	5,793	5,916	4,430	5,084	21,415	22,193	22,096
	12.5%	10.8%	12.3%	12.5%	12.4%	12.4%	10.6%	11.1%	12.0%	11.7%	11.8%
Amortization.....	1,988	2,035	1,968	2,042	1,971	2,027	1,993	2,060	7,920	8,164	8,167
Patent defense costs.....	63	72	112	33	136	9	72	31	383	145	307
Financial expenses.....	677	1,333	918	1,150	702	791	1,149	920	3,446	4,194	4,909
UFI ^{a)}	—	1,528	—	(5,390)	—	(3,800)	—	—	—	(7,662)	12,596
Income tax.....	8	(334)	87	601	13	531	(692)	259	(584)	1,057	(1,961)
NCI ^{a)}	433	60	366	1,163	455	958	230	274	1,484	2,455	(293)
Net Income (loss)	2,455	339	2,117	6,561	2,516	5,400	1,678	1,540	8,766	13,840	(1,629)

a) FX=foreign currency losses/(gains) from operations and a decrease in the net investment in Richards Packaging US, UFI= losses/(gains) on financial instruments, NCI=non-controlling interests.

Cost of products sold (before amortization) decreased \$2.6 million for the fourth quarter, or 6.8%, and by \$8.3 million for the 2010 year, or 5.3% (2009 – \$1.1 million increase, or 0.7%), from the same periods in 2009, respectively and although in line with the changes in revenue for the same periods, also reflects the impact of \$0.2 million of inventory write-downs for the year (2009 – \$2.3 million). During the fourth quarter and for the 2010 year, gross profit margins were down 2.0% (2009 – up 1.2%) and flat (2009 – up 0.2%) from the same periods in 2009, respectively, primarily due to foreign exchange (1.5%), ocean freight (0.5%) and price degradation (0.4%) in select large accounts in response to increasing competitive threats. The volatility in the price of resins continues to not have a material impact on margins as a result of management's practice of immediately passing through increases and decreases to customers.

Expenses (general and administrative before amortization) decreased \$0.3 million, or 0.7% of sales for the fourth quarter (2009 - \$0.1 million) and decreased \$0.6 million for the 2010 year (2009 – \$0.1 million increase), over the same periods in 2009, respectively mainly due to staffing expense reductions of \$0.4 million and the translation impact of U.S. dollar denominated expenses of Richards Packaging US.

The foreign exchange losses/(gains) from operations results from exchange rate changes applied to our U.S. denominated working capital position within our Canadian operations and decrease in the net investment in Richards Packaging US.

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EBITDA¹ decreased \$0.7 million for the fourth quarter and \$0.8 million for the 2010 year (2009 – \$0.1 million increase), over the same periods in 2009, respectively. During the 2010 year, the impact of the U.S./Cdn. 9.0¢ strengthening resulted in a decrease to EBITDA of \$1.3 million (2009 – \$1.1 million increase). As a percent of sales, EBITDA was at 10.6% for the fourth quarter and 12.0% for the 2010 year (2009 – 11.7%). Changes were due to the factors outlined above.

Other expenses comprise amortization, financial expenses including debt accretion and interest which were lower due to the reduction in overall debt; and losses (gains) on financial instruments comprised of foreign exchange gains on translation of U.S. denominated debt and the mark-to-market gain or loss on the fixed interest rate swap. The only cash item in other expenses is the interest and fees paid by Richards Packaging.

Amortization of \$2.0 million for the fourth quarter was mainly comprised of \$1.6 million for intangible assets, which represents a charge for customer relationships and patents. The remaining amortization amounts consisted of plant and equipment depreciation of \$0.4 million per quarter, which annualized, is approximately twice Richards Packaging's annual maintenance capital expenditure spending requirement.

Financial expenses for the fourth quarter increased by \$0.2 million and decreased by \$0.7 million for the 2010 year from the same periods in 2009. During the fourth quarter, financial expenses increased due to higher debt accretion of \$0.3 million offset by reductions to interest expense of \$0.1 million. For the 2010 year, financial expenses decreased \$1.3 million due to principal repayments and floating rate reductions offset by increased debt accretion and loss on debt extinguishment of \$0.6 million as a result of expensing bank fees previously capitalized.

Losses/(gains) on financial instruments are comprised of foreign currency translation of debt and mark-to-market adjustments on the fixed interest rate swap. For the 2009 year, foreign currency gains were \$7.0 million and together with the gain on the fixed interest rate swap, net gains were \$7.7 million. The U.S.\$47.0 million term loan outstanding on July 31, 2009 was converted in CDN\$ at a rate of 92¢ resulting in a cumulative foreign currency gain of \$2.5 million. This conversion now removes the volatility associated with foreign currency translation losses/(gains) on the debt. Also included is a \$0.7 million reversal of losses on the mark-to-market of the fixed interest rate swap which matured on June 5, 2009. Since Richards Packaging had 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 prior to conversion, this natural hedge no longer exists.

Current income taxes reflect the tax deductions inherent in distributions to unitholders. For the 2010 year, current income taxes were \$1.5 million (2009 – \$2.8 million) representing tax leakage predominately for the Richards Packaging US. Future income tax recoveries for the 2010 year were \$2.1 million (2009 – \$1.7 million) representing temporary differences due primarily to the reversal of accounting amortization. Net future tax assets available to shield income taxes are \$3.6 million, which include a loss carry forward of \$3.7 million and \$0.3 million of working capital offset by \$0.4 million of capital assets.

Net income for the fourth quarter was \$1.7 million, and for the 2010 year was \$8.8 million, which represented 16.7¢ and \$0.87 per Unit on a diluted basis, respectively. A time-weighted average total of 10,054,973 Units and 1,753,455 exchangeable shares, exchangeable into Units on a one-for-one basis, were outstanding in 2010.

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Distributable Cash Flow

	Qtr. 1		Qtr. 2		Qtr. 3		Qtr. 4		Calendar Year		
	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2008
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Cash provided by											
operating activities.....	823	1,982	2,220	4,363	2,231	4,622	5,080	5,869	10,354	16,836	16,544
Working capital changes...	3,338	1,243	1,934	(189)	2,363	(164)	(1,610)	(2,418)	6,025	(1,528)	(1,224)
Non-cash charges.....	1,463	1,808	1,414	1,986	1,199	1,458	960	1,633	5,036	6,885	6,776
EBITDA¹	5,624	5,033	5,568	6,160	5,793	5,916	4,430	5,084	21,415	22,193	22,096
Interest.....	621	1,306	652	1,124	661	765	677	779	2,611	3,974	4,498
Cash income tax.....	779	430	650	829	403	816	(309)	691	1,523	2,766	1,971
Maintenance capital.....	327	68	167	136	478	105	675	437	1,647	746	844
Distributable cash flow²...	3,897	3,229	4,099	4,071	4,251	4,230	3,387	3,177	15,634	14,707	14,783
<i>Diluted \$ per Unit</i>	<i>33.0¢</i>	<i>27.1¢</i>	<i>34.7¢</i>	<i>34.2¢</i>	<i>36.0¢</i>	<i>35.5¢</i>	<i>28.7¢</i>	<i>26.7¢</i>	<i>\$1.32</i>	<i>\$1.24</i>	<i>\$1.24</i>
Distributions.....	2,334	2,277	2,327	—	2,328	—	2,321	2,348	9,310	4,625	13,482
<i>Diluted per Unit</i>	<i>19.7¢</i>	<i>19.1¢</i>	<i>19.7¢</i>	—	<i>19.7¢</i>	—	<i>19.7¢</i>	<i>19.7¢</i>	<i>\$0.79</i>	<i>\$0.39</i>	<i>\$1.13</i>
<i>Payout ratio³</i>	<i>60%</i>	<i>71%</i>	<i>57%</i>	—	<i>55%</i>	—	<i>69%</i>	<i>74%</i>	<i>60%</i>	<i>31%</i>	<i>91%</i>
Free cash flow².....	1,563	952	1,772	4,071	1,923	4,230	1,066	829	6,324	10,082	1,301
Units outstanding											
<i>Diluted basis 000's</i>	11,827	11,908	11,803	11,908	11,803	11,908	11,803	11,889	11,808	11,903	11,952

The distributable cash flow² definition excludes changes in working capital and capital expenditures for expansion of the business, as they are necessary to drive organic growth and are expected to be financed by a \$5.0 million revolving facility available to Richards Packaging (nil drawn; 2009 – nil drawn).

Distributable cash flow² for the fourth quarter at \$3.4 million increased \$0.2 million in comparison to the same period in 2009 as lower EBITDA and higher maintenance capital including computer systems software upgrades were more than offset with lower interest and income taxes due to contraction in Richards Packaging US and bonus depreciation. Maintenance capital expenditures were otherwise consistent with management's annual target of \$0.8 million.

The monthly distribution of 6.55¢ per Unit, suspended in March and recommenced in October of the 2009 year at 6.55¢ per Unit, represents an annual yield of 9.0% on a \$8.75 price per Unit at December 31, 2010 and a payout ratio³ of 60% (2009 – 31%). Based upon the 2010 year, 97.6% of the distributions will represent interest on the subordinated note held by the Fund and 2.4% will be treated as a return of capital.

Liquidity and Financing

Cash flows from operating activities

Cash flows from operating activities decreased \$0.3 million for the fourth quarter and decreased by \$6.0 million for the 2010 year, over the same periods in 2009. The decreases were due primarily to lower cash flows from working capital increases over the same period in 2009 driven by the increases in inventory, accounts receivable and taxes recoverable.

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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 2010 year were \$9.3 million with an additional \$0.8 million declared for December, which was paid January 14th.

Normal Course Issuer Bid

On March 4, 2011, the Fund initiated a normal course issuer bid to purchase up to 200,000 Units prior to March 9, 2012. During the 2010 year, 62,736 Units (2009 – 43,006) were purchased at an average price of \$7.25 (2009 – \$6.98) per Unit.

	Free Cash Flow Deployment		
(\$ millions)	2008	2009	2010
Free Cash Flow	1.3	10.1	6.3
Patents	0.3	0.1	0.4
Working Capital	(0.3)	1.2	5.2
Expansion Capex	0.3	0.7	0.4
Unit Buyback	1.0	0.3	0.5
Debt Repayment	–	7.7	(0.2)

Cash income taxes

The cash income tax expense for the 2010 year was \$1.5 million (2009 – \$2.8 million), predominately made up of current income tax for the Richards Packaging US. The decrease resulted from lower earnings and a \$0.5 million benefit from the bonus depreciation program. The loss carry forwards in Richards Canada ensure that income tax leakage will be limited to Richards Packaging US until 2013 beyond which the new tax imposed upon publicly traded income trusts takes effect⁴.

Capital expenditures

Capital expenditures for the 2010 year were \$2.0 million (2009 – \$1.5 million), of which \$0.4 million (2009 – \$0.8 million) was on account of expansion capital and \$1.6 million on account of maintenance capital (2009 – \$0.7 million). Expenditures classified as maintenance capital are mainly comprised of refurbishment of moulds for replacement packaging driven by customer marketing programs along with \$0.6 million for a new computer system software platform consistent with Richards Canada's systems. Expansion capital expenditures were mainly incurred on new equipment and moulds for new customer programs.

Financing activities and instruments

Richards Packaging's credit facilities include a \$48.0 million term loan (2009 – \$47.7 million) with maturity on May 31, 2013 and up to \$5.0 million in revolving debt to fund working capital expansion. The term loan facility bears interest at BA's plus a premium of 2.5% to 3.25% (2009 – 3.0% to 3.75%) or at the prime rate plus a premium of 1.5% to 2.25% (2009 – 2.0% to 2.75%). During the 2010 year, there were no repayments of term debt (2009 – 7.7 million).

The credit facilities are subject to a number of covenants including the leverage ratio which was to maintain debt less than 2.75 times the trailing twelve months EBITDA¹. As at December 31, 2010, our proforma leverage ratio was 2.16 (2009 – 2.13), down from a high of 3.00 as at March 31, 2009. To ensure we achieved our target of 2.50 times leverage ratio, distributions were temporarily suspended beginning in March 2009. On July 31, 2009, Richards Packaging converted the U.S. denominated term debt at U.S./Cdn. 92¢ resulting in a \$2.5 million currency translation gain. U.S. dollar denominated interest provided an effective match with the net cash received from Richards

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Packaging US. Combined with cash flow from operations, management believes that adequate financing will be available for the foreseeable future⁴.

Previously, the interest on the U.S. denominated debt negated approximately two-thirds of the inherent foreign currency exchange risk on the Richards Packaging US cash flow. As a consequence of converting the U.S. denominated debt, distributable cash flow sensitivity to foreign currency fluctuations is now \$0.1 million for every U.S./Cdn. 1¢ movement.

Richards Packaging had entered into an interest rate swap contracts to June 5, 2009 on a notional principal amount equal to U.S.\$30,000 of term debt outstanding. The mark-to-market valuation of the swap contracts during the 2009 year gave rise to a gain of \$659.

<i>Commitments and contractual obligations</i>	(\$ millions)	Total	< 1 yr.	< 3 yrs.	< 5 yrs.	Beyond
A competitor has launched a product in July 2006 that Richards Packaging claims infringes our Dispill patent and trademark. The patent and trademark expenditures above reflect management's estimate of ongoing legal costs to continue in this action. If we succeed, there could be a positive effect on profitability in the future.	Bank debt	48.0		48.0		
	Previous shareholder	0.8	0.8			
	Patents and trademark	0.4	0.4			
	Annual bonus plans	0.7	0.7			
	Operating leases	20.8	3.8	7.1	4.7	5.2
		70.7	5.7	55.1	4.7	5.2

Outlook⁴

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 newly established level through 2011.

Management expects revenue contraction for the fourth quarter to continue into the first quarter by \$1 million before returning to be more in line with the industry growth average of 1-3% and. The impact of exchange translation will continue to reduce revenue with the strengthened U.S./Cdn.\$ exchange rates. The impact for the 2010 year is expected to continue throughout 2011 to an estimated \$1 million per quarter in 2011 based on exchange rates at U.S./Cdn.\$1.02.

EBITDA¹ for the fourth quarter was \$4.4 million and \$21.4 million for the 2010 year, and continues to track at levels exceeding 11% of revenue. Lower revenue in the first quarter is expected to have a \$0.2 million impact in the first quarter. For the 2011 year, revenue loss from translation is expected to lower EBITDA by \$0.4 million.

The cash income tax expense is expected to be \$2.5 million in 2011 due to tax leakage from the Richards Packaging US offset by the further reduction in EBITDA outlined above. Based upon Richards Canada's current tax profile we expect to have approximately \$4 million of loss carry forwards which will fully shield taxes in 2011 allowing for a full return of capital to unitholders. This is expected to continue approximately halfway into 2012.

Maintenance capital will continue to be funded by cash flow from operations and is expected to retract back to \$0.8 million in 2011. Expansion capital is expected to be in the order of \$1 to \$2 million cumulatively over the next few

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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.

Cash on the balance sheet of \$1 million at year end will be deployed to fund seasonal working capital requirements and surplus distributable cash is expected to be deployed to pay down debt, purchase units under the normal course issuer bid and/or fund acquisitions.

Risks and Uncertainties

Business risks

Investment in Units involves risks inherent in the ordinary course of business of Richards Packaging including: sustainability of customer and supplier relationships, financial stability of customers, lack of written customer and supplier agreements, competition from other packaging companies, the extent and duration of an economic downturn, patent and trademark challenges, inventory obsolescence, trade risks, resin price and exchange rate fluctuations, interest rate volatility, income taxes and reliance on key personnel. For a detailed description of these and other risks and uncertainties facing investors in the Fund please refer to the 2010 Annual Information Form dated March 4, 2011.

Liquidity Risk

Richards Packaging's ability to make scheduled payments of interest or to refinance will depend on leverage and future cash flow, which is subject to operational performance, prevailing economic conditions, exchange rate fluctuations, interest rate levels, and financial, competitive and other factors, many of which are beyond its control. These factors might inhibit Richards Packaging from refinancing the indebtedness at all, or on favourable terms. In addition, the credit facilities contain 1) restrictive covenants that limit the discretion of management with respect to certain business matters and 2) financial covenants that require Richards Packaging to meet certain financial ratios and financial condition tests. Failure to comply with obligations in the credit facilities could result in an event of default which, if not cured or waived, could permit acceleration of the relevant indebtedness. If the indebtedness under the credit facilities were to be accelerated, there can be no assurance that Richards Packaging's assets would be sufficient to repay in full that indebtedness. Richards Packaging's approach is to ensure that it will have sufficient liquidity to meet its liabilities when due. Cash levels are monitored daily to ensure sufficient continuity of funding.

Income taxes

During 2007, the Income Tax Act was amended to change the manner in which most publicly traded income trusts such as the Fund and the distributions from such trusts are taxed. Generally, the new rules will be effective in 2011 applying 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.

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Transactions with Related Parties

Richards Packaging leased two of its facilities in 2010 from an officer of Richards Packaging. Richards Packaging utilizes all of the production capability of Vision Plastics Inc., of which 50% is owned by the plant manager and 50% by Richards Packaging. All related party transactions are at rates that would be charged by arms-length parties.

Outstanding Share Data

At March 4, 2011, the Fund had 10,743,470 Units and Holdings had 1,059,043 exchangeable shares outstanding, respectively. See note 14 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, 2010 and revenue and expenses for the year then ended. Critical accounting estimates used in preparation of the consolidated financial statements are outlined below.

Allowance for doubtful accounts

An allowance for doubtful accounts is reviewed periodically on an account-by-account basis with a focus on the creditworthiness, aging and historical collection experience. Based on this review, management believes the allowance as at December 31, 2010 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. Given the current adverse economic climate, management expanded its scope of analysis which resulted in a \$0.2 million recognition of expense through inventory write down for the 2010 year (2009 – \$2.3 million). Based upon this review, management believes the obsolescence provision is adequate to cover risks inherent in inventory on hand as at December 31, 2010.

Intangible assets

Richards Packaging has recognized intangible assets in connection with various acquisitions valued at \$8.2 million as of December 31, 2010 pertaining to the future customer relationships that are not under long-term contract. The basis of valuation assumed that the margin percent would remain constant and the duration of these relationships would be impacted by a retention rate of approximately 90% per year. The customer relationship intangible and associated \$3.3 million future income tax liability as at December 31, 2010 will be amortized to income over 15 years from the date of acquisition. In addition, trademark intangible assets of \$3.0 million and an associated \$1.2 million future income tax liability have been recorded. Although previously recognized patent and customer relationship intangible assets affect net income, they do not impact distributable cash flow².

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Goodwill

Goodwill represents the excess purchase price of acquired businesses over the estimated fair value of the net assets acquired. Goodwill is not amortized but is reviewed for impairment annually or more frequently if impairment indicators arise. Although the Unit price recovered to \$8.75 as at December 31, 2010 (2009 – \$7.25), management believes that this is still not indicative of the fair value of the Fund. To determine fair value, management relies upon a valuation method based on a discounted cash flow model that assumes revenue growth and inflation of 2% per annum respectively. Overall the carrying value of goodwill continues to be supported by the fair value of the Fund.

Change in Accounting Policies

New Accounting Pronouncements

International Financial Reporting Standards ("IFRS")

The Canadian Accounting Standards Board confirmed that publicly accountable enterprises will be required to adopt IFRS for interim and annual reporting purposes beginning January 1, 2011. The impact of IFRS implementation include the reclassification of *Non-controlling interests* to *Debt*, the recognition of *Deferred taxes* and the reversal of *Foreign currency loss* associated with the net investment in Richards Packaging US. The Fund will avail itself of an exemption allowed under IFRS 1: prospective application of IFRS 3 *Business Combinations*.

The impact of treating the *Exchangeable Shares* as debt is to not deduct *Non-controlling Interest* from net income or comprehensive income but rather recognize the mark to market gain and dividends as financial items. Consistent with this change, the *Statement of Changes in Equity and Exchangeable Shareholders' Interest*, which had been added to disclose the movements in the *Units* and the *Exchangeable Shares* accounts under Canadian GAAP for ease of comparison.

The net investment in Richards Packaging US includes an unrealized capital gain tax associated with foreign currency that will need to be recognized in *Other Comprehensive Loss*. The *Foreign currency loss* included a portion of the *Accumulated other comprehensive loss* associated with the decrease in the net investment in Richards Packaging US that will be returned to the *Accumulated other comprehensive loss* account.

With the conversion of most income trusts to corporations, the appropriate comparables for Richards Packaging becomes other international packaging companies. Therefore the balance sheet will be reordered to give more prominence to *Working Capital* and *Net Operating Assets* consistent with the nature of a distribution business in the packaging industry.

There is no impact of the IFRS transition on business activities such as debt covenants, treasury activities and executive compensation.

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STATEMENT OF NET INCOME AND COMPREHENSIVE INCOME

For the year ended December 31, 2010

[Consolidated]

<i>Cdn\$ thousands</i>	IFRS	reclass	Cdn GAAP
	\$	\$	\$
Revenue	179,010		179,010
Cost of products sold	155,092		155,092
General and administrative expenses	10,407		10,407
Foreign currency loss	16		16
Patent defense legal costs	383		383
Profit from operations	13,112		13,112
Financial expenses	3,446		3,446
Exchangeable shares – mark-to-market loss	2,360	2,360	
Exchangeable shares – dividends	1,427	1,427	
Income before income taxes	5,879	(3,787)	9,666
Income tax expense (income)			
Current taxes	1,523		1,523
Deferred taxes	(2,106)		(2,106)
	(583)		(583)
Non-controlling interests		(1,483)	1,483
Net income for the year	6,462	(2,304)	8,766
Basic and diluted income per Unit	<i>\$0.64</i>		<i>\$0.87</i>
Other comprehensive losses			
Richards Packaging US			
Net investment translation	(2,994)	(340)	(2,654)
Deferred tax	392	392	
Comprehensive income for the year	3,860	(2,252)	6,112

Richards Packaging Income Fund

MANAGEMENT'S DISCUSSION AND ANALYSIS

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STATEMENTS OF FINANCIAL POSITION

As at January 1 and December 31, 2010

[Consolidated]

Cdn\$ thousands	IFRS \$	Dec. 31 reclass \$	Cdn GAAP \$	IFRS \$	Jan. 1 reclass \$	Cdn GAAP \$
Current Assets						
Cash and cash equivalents	1,144		1,144	2,071		2,071
Accounts receivable	18,766		18,766	18,873		18,873
Inventory	35,187		35,187	31,289		31,289
Prepaid expenses	2,365		2,365	2,010		2,010
Income taxes recoverable	700		700	10		10
	58,162		58,162	54,253		54,253
Current Liabilities						
Accounts payable	(18,618)		(18,618)	(18,604)		(18,604)
Distributions and dividends payable	(773)		(773)	(780)		(780)
Due to previous shareholder of acquired company	(784)		(784)	(825)		(825)
	(20,175)		(20,175)	(20,209)		(20,209)
WORKING CAPITAL	37,987		37,987	34,044		34,044
Non-current Assets						
Plant and equipment	4,031		4,031	4,180		4,180
Intangible assets	31,108		31,108	37,514		37,514
Goodwill	70,390		70,390	72,010		72,010
	105,529		105,529	113,704		113,704
Non-current Liabilities						
Deferred income taxes	(5,322)	917	(6,239)	(8,036)	524	(8,560)
Non-controlling interest		8,575	(8,575)		15,081	(15,081)
NET OPERATING ASSETS	138,194	9,492	128,702	139,712	15,605	124,107
Debt						
Term debt	48,000		48,000	47,402		47,402
Exchangeable shares - current	5,330	5,330		6,857	6,857	
Exchangeable shares - non-current	3,867	3,867		5,718	5,718	
	57,197	9,197	48,000	59,977	12,575	47,402
Equity						
Unitholders' capital	89,745	(484)	90,229	94,349		94,349
Deficit	(2,673)	25	(2,698)	(11,140)	2,329	(13,469)
Accumulated other comprehensive loss	(6,075)	754	(6,829)	(3,474)	701	(4,175)
	80,997	295	80,702	79,735	3,030	76,705
FINANCING	138,194	9,492	128,702	139,712	15,605	124,107

Richards Packaging Income Fund

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March 4, 2011

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STATEMENT OF CASH FLOWS

For the year ended December 31, 2010

[Consolidated]

<i>Cdn\$ thousands</i>	IFRS	reclass	Cdn GAAP
	\$	\$	\$
OPERATING ACTIVITIES			
Net income for the year	6,462	(2,304)	8,766
Non-controlling interest		(1,483)	1,483
Add (deduct) items not involving cash			
Plant and equipment depreciation	1,435		1,435
Exchangeable shares – mark-to-market loss	2,360	2,360	
Intangible asset amortization	6,485		6,485
Debt accretion	316		316
Deferred income taxes	(2,106)		(2,106)
	14,952		16,379
Changes in non-cash working capital	(6,025)		(6,025)
Cash provided by operating activities	8,927		10,354
INVESTING ACTIVITIES			
Additions to plant and equipment	(1,366)		(1,366)
Expenditures on computer systems software	(655)		(655)
Cash used in investing activities	(2,021)		(2,021)
FINANCING ACTIVITIES			
Repayment of term debt	(47,719)		(47,719)
Proceeds from term debt	48,000		48,000
Purchase of trust units for cancellation	(455)		(455)
Dividends paid to exchangeable shareholders		1,427	(1,427)
Distributions paid to unitholders	(7,890)		(7,890)
Cash used in financing activities	(8,064)		(9,491)
Foreign currency gain		(231)	231
Net decrease in cash and cash equivalents	(1,158)	(231)	(927)
Cash and cash equivalents, beginning of year	2,071		2,071
Foreign currency translation differences	231	231	
Cash and cash equivalents, end of year	1,144		1,144

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Disclosure Controls and Internal Controls over Financial Reporting

The Fund has established and maintains disclosure controls and procedures as well as internal controls over financial reporting. Richards Packaging Inc.'s Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of the disclosure controls and procedures as well as the design and operating effectiveness of internal controls over financial reporting as of December 31, 2010 and have concluded that such controls and procedures are adequate and effective. Management determined that there were no material weaknesses in the Fund's internal controls over financial reporting as of December 31, 2010 and there have been no changes in the Fund's internal controls over financial reporting during the year ended December 31, 2010 that have materially affected, or are reasonably likely to materially affect, its internal controls over financial reporting.

Additional Information

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

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- 1 *Management defines EBITDA as earnings before amortization, interest, losses (gains) on financial instruments and taxes. EBITDA is the same as profit from operations as outlined in the annual financial statements after adding back amortization and patent defense costs. Management believes that in addition to net income, EBITDA is a useful supplemental measure for investors of earnings available for distribution prior to debt service, capital expenditures and taxes. Management uses this measure as a starting point in the determination of earnings available for distribution to unitholders and exchangeable shareholders. In addition, EBITDA is intended to provide additional information on the operating performance. This earnings measure should not be construed as an alternative to net income or as an alternative to cash flows from operating, investing and financing activities as a measure of liquidity and cash flows. EBITDA does not have a standardized meaning prescribed by GAAP and therefore 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. Free cash flow is distributable cash flow less distributions. The objective of presenting these measures is to calculate the amount which is available for distribution to unitholders or exchangeable shareholders and to determine the amount available to fund increases in working capital or expansion capital. Investors are cautioned that distributable cash flow should not be construed as an alternative to cash flow from operating, investing and financing activities as a measure of the liquidity and cash flows. Distributable cash flow does not have a standardized meaning prescribed by GAAP and therefore the 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 flow². 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 method of calculating the payout ratio may not be comparable to similar measures presented by other income trusts.*
 - 4 *The Report to unitholders and this MD&A contains forward-looking information within the meaning of applicable securities laws. The forward-looking information reflects management's current beliefs and expectations regarding the future growth, results of operations, performance and business prospects and opportunities of the Fund and Richards Packaging. We use words such as "may", "will", "should", "anticipate", "plan", "expect", "believe", "predict", "estimate" and similar terminology to identify forward-looking information. It is based on assumptions, estimates and analysis made by us in light of our experience and our perception of trends, current conditions and expected developments, as well as other factors we believe to be reasonable and relevant in the circumstances. Forward-looking*

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