AUDITORS' REPORT

To the Unitholders of Richards Packaging Income Fund

We have audited the consolidated balance sheet of Richards Packaging Income Fund ("the Fund") as at December 31, 2007 and the consolidated statements of net income and comprehensive income, deficit and accumulated other comprehensive loss and cash flows for the year then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2007 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The consolidated financial statements as at December 31, 2006 and for the year then ended were audited by other auditors who expressed an opinion without reservation on those consolidated financial statements in their report dated February 23, 2007.

(signed*) "PricewaterhouseCoopers LLP"***

Chartered Accountants, Licensed Public Accountants
Toronto, Canada
March 4, 2008

Richards Packaging Income Fund

CONSOLIDATED BALANCE SHEETS
[expressed in thousands of dollars]

As at December 31

	2007 $	2006 $
ASSETS *[note 9]*		
Current		
Cash and cash equivalents	**103**	**1,858**
Accounts receivable	**21,177**	**21,127**
Inventory	**31,835**	**24,175**
Prepaid expenses	**2,267**	**971**
Income taxes recoverable	**20**	**54**
Future income tax assets *[note 13]*	**—**	**487**
Total current assets	**55,402**	**48,672**
Capital assets *[note 6]*	**4,395**	**4,903**
Deferred financing fees *[note 3]*	**—**	**380**
Intangible assets *[note 7]*	**49,847**	**43,087**
Future income tax assets *[note 13]*	**74**	**473**
Goodwill *[notes 1, 5 and 8]*	**70,187**	**57,276**
	179,905	**154,791**
LIABILITIES AND UNITHOLDERS' EQUITY		
Current		
Bank indebtedness	**1,259**	**—**
Accounts payable and accrued liabilities	**20,395**	**19,288**
Income taxes payable	**277**	**435**
Distributions and dividends payable *[notes 11 and 12]*	**1,123**	**1,008**
Due to previous shareholder of acquired company *[note 5]*	**779**	**—**
Short-term debt and current portion of long-term debt *[notes 3 and 9]*	**18,804**	**40**
Total current liabilities	**42,637**	**20,771**
Long-term debt *[notes 3 and 9]*	**29,426**	**34,987**
Future income tax liabilities *[note 13]*	**14,176**	**12,341**
Total liabilities	**86,239**	**68,099**
Non-controlling interests *[note 11]*	**15,409**	**4,291**
Unitholders' equity		
Units *[note 12]*	**95,526**	**95,772**
Deficit	**(10,068)**	**(9,843)**
Accumulated other comprehensive loss *[note 3]*	**(7,201)**	**(3,528)**
	(17,269)	**(13,371)**
Total unitholders' equity	**78,257**	**82,401**
	179,905	**154,791**

Commitments and contingencies *[notes 10 and 16]*

The accompanying notes are an integral part of these consolidated financial statements.

"Wayne McLeod"	*"Gerry Glynn"*	*"Enzio Di Gennaro"*
Chair – Audit Committee	CEO – Richards Packaging Inc.	CFO – Richards Packaging Inc.

Richards Packaging Income Fund

CONSOLIDATED STATEMENTS OF NET INCOME AND COMPREHENSIVE INCOME, DEFICIT AND ACCUMULATED OTHER COMPREHENSIVE LOSS

[note 3]

[expressed in thousands of dollars except for per Unit amounts]

For the years ended December 31

	2007 $	2006 $
Revenue	**158,008**	**159,005**
Cost of products sold	**130,930**	**132,001**
	27,078	**27,004**
General and administrative expenses	**9,600**	**9,101**
Foreign currency gain from operations *[note 16]*	**(291)**	**(33)**
Long-term incentive plan *[note 12]*	**95**	**130**
Income before under noted items, income taxes and non-controlling interests	**17,674**	**17,806**
Amortization		
Capital assets *[note 6]*	**1,969**	**2,189**
Intangible assets *[note 7]*	**5,821**	**5,732**
Debt accretion *[notes 3 and 9]*	**229**	**509**
Interest expense *[note 9]*	**3,221**	**3,045**
Unrealized losses (gains) on financial instruments *[note 16]*		
Interest rate swap contracts	**309**	**222**
Foreign currency translation of debt	**(4,628)**	**(7)**
Income before income taxes and non-controlling interests	**10,753**	**6,116**
Provision for (recovery of) income taxes *[note 13]*		
Current	**837**	**817**
Future	**(1,974)**	**(3,646)**
	(1,137)	**(2,829)**
Non-controlling interests *[note 11]*	**610**	**435**
Net income for the year	**11,280**	**8,510**
Basic income per Unit *[note 12]*	**$1.10**	**$0.83**
Diluted income per Unit	**$1.08**	**$0.83**
Other comprehensive income (loss)		
Unrealized foreign currency translation of US operations	**(3,673)**	**61**
Comprehensive income for the year	**7,607**	**8,571**
STATEMENT OF DEFICIT		
Deficit, beginning of year	**(9,843)**	**(6,845)**
Net income for the year	**11,280**	**8,510**
Distributions declared to unitholders *[note 12]*	**(11,505)**	**(11,508)**
Deficit, end of year	**(10,068)**	**(9,843)**
ACCUMULATED OTHER COMPREHENSIVE LOSS		
Accumulated other comprehensive loss, beginning of year	**(3,528)**	**(3,589)**
Other comprehensive income (loss)	**(3,673)**	**61**
Accumulated other comprehensive loss, end of year	**(7,201)**	**(3,528)**

The accompanying notes are an integral part of these consolidated financial statements.

Richards Packaging Income Fund

CONSOLIDATED STATEMENTS OF CASH FLOWS

[expressed in thousands of dollars]

For the years ended December 31

	2007 $	2006 $
OPERATING ACTIVITIES		
Net income for the year	**11,280**	**8,510**
Add (deduct) items not involving cash		
Amortization and debt accretion	**8,019**	**8,430**
Future income taxes	**(1,974)**	**(3,646)**
Non-controlling interests	**610**	**435**
Unrealized losses on financial instruments	**309**	**222**
Unrealized foreign currency gain on debt	**(4,628)**	**(7)**
	13,616	**13,944**
Net change in non-cash operating elements of working capital *[note 17]*	**(4,054)**	**4,090**
Cash provided by operating activities	**9,562**	**18,034**
INVESTING ACTIVITIES		
Additions to capital assets	**(1,238)**	**(884)**
Expenditures on patents	**(130)**	**(330)**
Acquisition, net of cash acquired of $622 *[note 5]*	**(18,498)**	**—**
Cash used in investing activities	**(19,866)**	**(1,214)**
FINANCING ACTIVITIES		
Increase (decrease) in bank indebtedness	**1,259**	**(1,312)**
Proceeds from debt, net	**18,022**	**94**
Repayment of short-term debt	**(40)**	**(2,200)**
Proceeds from exchangeable share issue, net	**1,988**	**—**
Purchase of trust units for cancellation	**(246)**	**—**
Dividends paid to exchangeable shareholders	**(821)**	**(589)**
Distributions paid to unitholders	**(11,507)**	**(11,508)**
Cash provided by (used in) financing activities	**8,655**	**(15,515)**
Foreign currency gain (loss)	**(106)**	**74**
Net increase (decrease) in cash and cash equivalents	**(1,755)**	**1,379**
Cash and cash equivalents, beginning of year	**1,858**	**479**
Cash and cash equivalents, end of year	**103**	**1,858**

The accompanying notes are an integral part of these consolidated financial statements.

1. FORMATION OF THE FUND AND ACQUISITIONS

Richards Packaging Income Fund [the "Fund"] is an open-ended, limited purpose trust established under the laws of the Province of Ontario by a Declaration of Trust dated February 26, 2004. The Fund completed an initial public offering of trust Units [the "Units"] on April 7, 2004 to facilitate the acquisition of 96% of the shares of Richards Packaging Inc. and an indenture note through a series of transactions for consideration of $86,161. The remaining 4% was acquired by the exchangeable shareholders *[note 11]*.

The Fund indirectly acquired all the shares of Kay Containers Ltd., Calgary Plastics Container Supply Ltd. and M.A. Foss Distributors Ltd. on November 30, 2004 for consideration of $7,636, Dispill Inc. on July 29, 2005 for consideration of $7,514 and The E.J. McKernan Co. on October 31, 2007 for consideration of $28,587 *[note 5]*.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The significant accounting policies are summarized as follows:

Principles of consolidation

The consolidated financial statements include the accounts of the Fund, Richards Packaging Holdings Inc. ["Holdings"], Richards Packaging Inc. ["Richards Canada"], Richards Packaging Holdings (US) Inc., 071907 Inc., Richards Packaging, Inc. ["Richards US"], The E.J. McKernan Company ["McKernan"] and 50% of Vision Plastics Inc. ["Vision"]. Vision, which is jointly controlled, is one of our three plastic container manufacturing plants. The non-controlling interests in the investments of the Fund is 14.9% [2006 - 4.9%]. Holdings and its subsidiaries are referred to as "Richards Packaging".

Revenue recognition

Revenue is recognized when persuasive evidence of an arrangement exists, significant risks and benefits of ownership are transferred, the sales price to the customer is fixed or is determinable and collection of the resulting receivable is reasonably assured. The significant risks and benefits of ownership are normally transferred in accordance with the shipping terms agreed to with the customer. The Fund estimates and records an allowance for product returns and discounts for each reporting period.

Cash and cash equivalents & bank indebtedness

Cash and cash equivalents include cash on hand, demand deposits and highly liquid investments with a term to maturity of three months or less at the date of purchase. Bank indebtedness represents issued and outstanding cheques which have not yet been applied to the revolving credit facility. Cash balances with the right of offset are netted against bank indebtedness.

Inventory

Raw materials are valued at the lower of cost and replacement value. Products available for sale are valued at the lower of cost and net realizable value. Cost is determined on a first-in, first-out basis.

Capital assets

Capital assets are initially recorded at cost. Repairs and maintenance are charged to income as incurred. Amortization is computed using the straight-line or diminishing balance method over the remaining estimated useful lives of the capital assets as outlined below:

Manufacturing equipment	straight-line over 7 years
Moulds	straight-line over 4 years
Computer equipment	30% diminishing balance
Computer software and systems implementation	straight-line over 5 years
Warehouse and office equipment	20% diminishing balance
Leasehold improvements	straight-line over lease term

Intangible assets

Intangible assets with a finite life are recorded at cost and are amortized on a straight-line basis over the period of expected future benefit. Costs for patents also include legal defense expenditures. Customer relationships and contracts are amortized over 10 or 15 years and patents over 12 years. Trademarks have indefinite lives and are not amortized.

Goodwill

At the acquisition date, goodwill is recorded at the excess of the purchase price of an acquired business over the fair value of the net assets acquired.

Management performs an impairment test on its goodwill annually, or more frequently if circumstances indicate a possible impairment. The carrying amount of goodwill is reviewed for possible impairment by conducting a two-step test. In the first step, fair value of the reporting unit, as determined by discounted cash flows, is compared to its carrying value. If the fair value is less than the carrying value, a second step will be conducted whereby the fair value of goodwill is determined on the same basis as in a business combination. If the fair value of goodwill is less than its carrying value, goodwill will then be written down to its estimated fair value.

Long-lived assets

Long-lived assets are comprised of capital assets and intangible assets which are reviewed for impairment whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. For purposes of evaluating the recoverability of long-lived assets, a test is performed using undiscounted future net cash flows. Should impairment exist, the loss would be measured as the difference between the carrying value and the fair value and recognized by way of an additional current period amortization charge. Management has not identified any such impairment losses to date.

Income taxes

The consolidated entities of the Fund follow the liability method to account for income taxes whereby future tax assets and liabilities are determined based on temporary differences between the carrying amounts and the tax basis of assets and liabilities. Future tax assets and liabilities are measured using the substantively enacted tax rates that will be in effect when these differences are expected to reverse. Future tax assets are recognized only to the extent that it is more likely than not that the assets will be realized.

Long-term incentive plan

Management is eligible to participate in a long-term incentive plan. Long-term incentive plan costs are accrued based on excess distributions and recognized on a graded vesting basis.

Foreign currency translation

The unit of measure for the Fund and its investments, except for Richards Packaging subsidiaries in the United States, is the Canadian dollar and accounts in foreign currencies have been translated into Canadian dollars. Monetary items are recorded at exchange rates in effect at the consolidated balance sheet dates and non-monetary items are recorded at the exchange rates in effect on the date of the transaction. Revenue and expenses are recorded at average exchange rates prevailing during the year, except for amortization, which is translated at rates prevailing when the related assets were acquired. Gains and losses arising from foreign currency translations are included in income.

Richards Packaging subsidiaries in the United States are treated as self sustaining foreign operations. All assets and liabilities are translated at exchange rates in effect on the consolidated balance sheet dates. Revenue and expenses, including amortization, are translated at average exchange rates prevailing during the year. Any resulting gains or losses are included in unitholders' equity as accumulated other comprehensive loss.

Derivative financial instruments

Derivative financial instruments are utilized from time to time to reduce interest rate risks on Richards Packaging's debt. Management does not enter into financial instruments for trading or speculative purposes. Richards Packaging has not designated its interest rate swap contracts as hedges for accounting purposes and, accordingly, records the fair value of these derivatives using a mark-to-market valuation basis, with changes during the year recognized in income as unrealized gains/losses on financial instruments.

Use of estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions which affect the reported amounts of assets and liabilities, and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the amounts of revenue and expenses recognized for the period reported. By their nature, these estimates are subject to measurement uncertainty and are reviewed periodically and adjustments, if necessary, are made in the period in which they are identified. Actual results may differ from these estimates.

Comparative financial statements

Certain amounts in the comparative financial statements have been reclassified from statements previously presented to conform to the presentation of the 2007 consolidated financial statements.

3. CHANGE IN ACCOUNTING POLICIES

Effective January 1, 2007 the Fund adopted the following new Canadian Institute of Chartered Accountants Handbook recommendations and in accordance with the transitional provisions these new standards were adopted on a prospective basis however, prior period unrealized gains and losses related to the translation of self sustaining foreign operations are now included in accumulated other comprehensive loss.

Comprehensive Income and Equity *[Sections 1530 and 3251]*

Comprehensive income and its components have been presented as part of the financial statements. Gains and losses from the translation of Richards Packaging subsidiaries in the United States, our self sustaining foreign operations, are now presented in our statement of comprehensive income as other comprehensive income (loss). Previously, these gains and losses were included in unitholders' equity as cumulative translation adjustment.

Financial Instruments – Recognition and Measurement *[Section 3855]*

Financial assets and liabilities are classified as either: held for trading, available for sale, held to maturity, loans and receivables or other liabilities. Financial assets classified as held for trading or available for sale are measured at fair value. Held to maturity, loans and receivables and other liabilities are measured initially at fair value then at amortized cost over the term. Initial differences between fair value and maturity value are amortized using the effective interest rate method.

Given the short-term nature of our financial assets and liabilities and that our debt facilities bears interest at variable rates there was no material impact on current or prior periods. Deferred financing fees of $380 were deducted from long-term debt as of January 1, 2007 and, together with the $275 additional fees paid during the year, will be amortized over the period ending June 5, 2009 or June 3, 2008, respectively, as debt accretion. Previously, these deferred financing fees were deferred and amortized using the straight line method.

[expressed in thousands of dollars except for Unit and per Unit amounts]

Adoption of these standards did not have a significant impact on the Fund's earnings and cash flows.

4. NEW ACCOUNTING PRONOUNCEMENTS

The Canadian Institute of Chartered Accountants recently issued an accounting standard that may affect the Fund in the quarter ending March 31, 2008 and beyond.

Inventory *[Section 3031]*

This standard relates to the accounting for inventories and revises and enhances the requirements for assigning costs to inventories. It also outlines the treatment for the subsequent write-up of inventory previously written-down to net realizable value requiring separate disclosure for inventories that were written-down to net realizable value and recognition of the expense or income resulting from changes in value. Richards Packaging has no partially written-down inventory that would require separate disclosure as at December 31, 2007.

5. ACQUISITION

On October 31, 2007, Richards Packaging indirectly acquired all the shares of The E.J McKernan Co., a direct mail, catalogue and telemarketing packaging distributor and the largest provider of surplus packaging in the United States, for $28,587 (U.S.$30,095) including acquisition costs of $90 (U.S.$95). The consideration was satisfied by a cash payment of $18,998 (U.S.$20,000), which was financed by a draw of $17,098 on the acquisition credit facility *[note 9]* and by a $2,000 private placement of exchangeable shares to the President and the CEO of Richards Packaging *[note 11]*. The balance of the purchase price of $9,499 (U.S.$10,000) was satisfied by the issuance of 1,052.632 shares exchangeable into 1,052,632 Units of the Fund *[note 11]*. The market value of the Units were used as a basis to value the exchangeable shares.

This acquisition has been accounted for by the purchase method. Consequently, the results of operations and cash flows are included in these consolidated financial statements from the effective date of acquisition. The allocation of the purchase price is outlined below:

	$		$
Current assets	**9,059**	Current liabilities	**2,508**
Capital assets	**335**	Due to previous shareholder	**749**
Trademark	**2,850**	Future income tax liabilities	**4,544**
Customer relationships	**9,119**		
Total assets acquired	**21,363**	**Total liabilities assumed**	**7,801**
Fair value of net assets acquired			**13,562**
Goodwill *[note 8]*			**15,025**
Purchase price			**28,587**

[expressed in thousands of dollars except for Unit and per Unit amounts]

6. CAPITAL ASSETS

	Cost	Accumulated amortization	Net book value 2007	Net book value 2006
	$	$	$	$
Manufacturing equipment	**4,349**	**3,130**	**1,219**	**1,518**
Moulds	**3,759**	**2,381**	**1,378**	**1,516**
Computer equipment	**839**	**459**	**380**	**399**
Computer software and systems implementation	**1,486**	**904**	**582**	**870**
Warehouse and office equipment	**1,092**	**505**	**587**	**505**
Leasehold improvements	**367**	**118**	**249**	**95**
	11,892	**7,497**	**4,395**	**4,903**

7. INTANGIBLE ASSETS

	Cost	Accumulated amortization	Net book value 2007	Net book value 2006
	$	$	$	$
Customer relationships and contracts	**62,786**	**19,655**	**43,131**	**39,112**
Patents	**4,391**	**870**	**3,521**	**3,775**
Trademarks	**3,195**	**—**	**3,195**	**200**
	70,372	**20,525**	**49,847**	**43,087**

Intangible assets amortization is not deductible for tax purposes.

8. GOODWILL

	2007	2006
	$	$
Goodwill, beginning of year	**57,276**	**57,289**
Acquired on acquisition during the year *[note 5]*	**15,025**	**—**
Foreign currency translation loss	**(2,114)**	**(13)**
Goodwill, end of year	**70,187**	**57,276**

The foreign currency translation loss is associated with the goodwill related to Richards Packaging subsidiaries in the United States. Goodwill is not deductible for tax purposes.

[expressed in thousands of dollars except for Unit and per Unit amounts]

9. SHORT- AND LONG-TERM DEBT

The acquisition credit and term loan are presented net of unamortized debt issue costs of $209 and $217, respectively. Revolving and acquisition credit lines were amended on October 31, 2007.

Debt facility	Due date	Interest rate	Outstanding balance 2007	2006	Total facilities
			$	$	$
Revolving credit	June 3, 2008	See [i] below	**1,200**	—	**7,000**
Acquisition credit	June 3, 2008	See [ii] below	**17,577**	—	**17,577**
Term loan	August 5, 2008	See [iii] below	**27**	**40**	**27**
Short-term debt and current portion of long-term debt			**18,804**	**40**	**24,604**
Term loan	June 5, 2009	See [iv] below	**29,426**	**34,959**	**29,426**
Term loan		See [iii] below	—	**28**	—
Long-term debt			**29,426**	**34,987**	**29,426**

[i] The revolving credit facility consists of an operating line of credit of $7,000 [2006 – $5,000] bearing interest at the prime rate plus a premium of 0.4% to 1.0%. The effective interest rate at December 31, 2007 is 6.9% [2006 – 7.2%].

[ii] The acquisition credit facility consists of a line of credit of U.S.$18,000 [2006 – U.S.$7,000] bearing interest at LIBOR plus a premium of 1.4% to 2.0%. The effective interest rate at December 31, 2007 is 6.7% [2006 – 6.9%].

[iii] The term loan consists of $27 [2006 – $68] bearing interest at the prime rate plus 0.75% with monthly principal repayments of $3. The effective interest rate at December 31, 2007 is 6.9% [2006 – 6.5%].

[iv] The term loan consists of a U.S.$30,000 loan [2006 – U.S.$30,000] bearing interest at LIBOR plus a premium of 1.4% to 2.0%. The effective interest rate at December 31, 2007 is 6.8% subject to an interest rate swap effective September 10, 2007 [2006 – 6.6%].

The debt facilities except as noted in [iii] above, are payable in full on the due dates outlined in the above table.

Interest expense for the year ended December 31, 2007 is comprised as follows: term loan, revolving credit and acquisition credit interest of $2,625 [2006 – $2,508], credit card commission charges of $340 [2006 – $264] and credit facility charges of $256 [2006 – $273].

Richards Canada has provided a first charge over all of its assets as collateral for the revolving credit facility, the acquisition credit facility and the term loan. The term loan noted in [iii] above is secured by a first charge on all of Vision's assets.

[expressed in thousands of dollars except for Unit and per Unit amounts]

10. COMMITMENTS AND CONTINGENCIES

The minimum rental payments, exclusive of occupancy charges, required under the leases for Richards Packaging's premises are as follows:

	Related parties $	**Other** $	**Total** $
2008	**810**	**2,319**	**3,129**
2009	**504**	**1,925**	**2,429**
2010	**494**	**710**	**1,204**
2011	**509**	**558**	**1,067**
2012	**524**	**567**	**1,091**
Thereafter	**4,042**	**1,962**	**6,004**

In the ordinary course of business, Richards Packaging is involved in litigation and other claims. It is management's opinion that the ultimate outcome of these matters will not have a material adverse effect on the financial position or operating results of Richards Packaging.

11. NON-CONTROLLING INTERESTS

The non-controlling interests represent exchangeable shares issued by Richards Packaging to officers on the initial public offering *[note 1]* and in connection with two business acquisitions.

	Issue date	**Number of shares**	$
Issued on initial public offering	Apr. 7, 2004	**455,185**	
Consideration for acquisition, net	Nov. 30, 2004	**69,500**	
Balance, December 31, 2005		**524,685**	**4,442**
Other comprehensive income allocation			**3**
Share of income			**435**
Dividends			**(589)**
Balance, December 31, 2006		**524,685**	**4,291**
Shares issued to officers, net	Oct. 31, 2007	**216,216**	**1,988**
Consideration for acquisition, net *[note 5]*	Oct. 31, 2007	**1,052,632**	**9,467**
Other comprehensive loss allocation			**(8)**
Share of income			**610**
Dividends			**(939)**
Balance, December 31, 2007		**1,793,533**	**15,409**

The exchangeable shares are redeemable by Richards Packaging on the fifth anniversary of their issue date, or prior to that date in limited circumstances, and are retractable by the shareholders at any time. A retraction or redemption of exchangeable shares will be paid in Units on a one-for-one basis. The exchangeable shares issued as consideration for the McKernan acquisition are retractable on a limited basis by the shareholder in increments of up to $1.9 million at the end of each anniversary subsequent to issue however, the Fund has the option to settle the redemption in cash. Exchangeable shares carry the right to vote at any meeting that unitholders are entitled to vote on the same basis.

[expressed in thousands of dollars except for Unit and per Unit amounts]

Dividends paid to the exchangeable shareholders are not subordinated to distributions to unitholders and are declared on the same basis net of applicable taxes. Dividends are made monthly to shareholders of record on the last business day of each month and paid on the 15th day of the following month.

12. UNITS

The Fund initiated a normal course issuer bid on November 15, 2007 to purchase up to 307,700 Units prior to November 14, 2008. During the year, 25,300 Units were purchased for $234 [$9.25/unit]. Legal costs and fees paid to the Ontario Securities Commission totaling $12 were incurred to launch the normal course issuer bid.

The capital contributions by unitholders were as follows:	**Number of Units**	**$**
Issued on initial public offering	**8,569,913**	**85,699**
Issued for partial acquisition of Richards Packaging Inc.	**1,686,414**	**16,864**
Issuance costs, net of capital contributions and future income taxes		**(6,791)**
Balance, December 31, 2006	**10,256,327**	**95,772**
Units purchased, including costs incurred	**(25,300)**	**(246)**
Balance, December 31, 2007	**10,231,027**	**95,526**

	2007	**2006**
Weighted average number of Units outstanding		
Basic	**10,253,545**	**10,256,327**
Diluted	**10,990,284**	**10,781,012**

Fund Units

The Declaration of Trust provides that an unlimited number of Units may be issued. Each Unit is transferable and represents an equal undivided beneficial interest in any distributions of the Fund and in the net assets of the Fund. All Units have equal rights and privileges. Each Unit entitles the holder thereof to participate equally in allocations and distributions and to one vote at all meetings of unitholders for each whole Unit held. The Units issued are not subject to future calls or assessments.

[expressed in thousands of dollars except for Unit and per Unit amounts]

Units are redeemable at any time at the option of the holder at amounts related to market prices at the time, subject to a maximum of $50 in cash redemptions by the Fund in any particular month.

Distributions

Distributions are made monthly to unitholders of record on the last business day of each month and paid on the 15th day of the following month. Distributions declared monthly during the year ended December 31, 2007 were $959 from January to October, $958 in November and $957 in December [2006 – $959 monthly] or 9.35¢ per Unit [2006 – 9.35¢ per Unit].

Long-term incentive plan

Key senior management of Richards Packaging are eligible to participate in the long-term incentive plan [the "LTIP"]. Units awarded under the LTIP will vest over a three- year period, with one-third of the Units vesting each year. The contributions to the LTIP ceased as of April 4, 2007. For the year ended December 31, 2007, $95 of compensation expense was recognized [2006 – $130].

13. INCOME TAXES

The provision for (recovery of) income taxes differs from the provision computed at statutory rates due to the various adjustments outlined below:

	2007 $	**2006** $
Income before income taxes and non-controlling interests	**10,753**	**6,116**
Distributions to unitholders, not subject to income taxes in the Fund	**(9,751)**	**(9,721)**
Income (loss) subject to income taxes	**1,002**	**(3,605)**
Statutory tax rate	***36.1%***	***36.1%***
Income taxes expense (recovery) at statutory tax rate	**362**	**(1,302)**
Future income tax recovery	**1,974**	**3,646**
Current period adjustments		
Change in enacted tax rates	**(672)**	**(877)**
Foreign currency translation of debt	**(722)**	**(247)**
Withholding tax	**423**	**137**
Intercompany financing	**(430)**	**—**
Income tax loss recognized	**9**	**(496)**
Other items	**(107)**	**(44)**
Current income taxes	**837**	**817**

[expressed in thousands of dollars except for Unit and per Unit amounts]

Significant components of future income tax assets and liabilities are as follows:

	2007 $	2006 $
Future income tax assets – current		
Working capital	**—**	**487**
Future income tax assets – long-term		
Capital assets	**(5)**	**(1)**
Customer relationships and contracts	**(334)**	**(416)**
Equity placement fees	**269**	**532**
Loss for income taxes not utilized	**144**	**308**
Other	**—**	**50**
	74	**473**
Future income tax liabilities – long term		
Capital assets	**348**	**512**
Unrealized gains on financial instruments	**1,003**	**281**
Customer relationships and contracts	**15,360**	**13,156**
Patents	**1,021**	**1,213**
Equity placement fees	**(356)**	**(706)**
Loss for income taxes not utilized	**(2,572)**	**(1,708)**
Other	**(628)**	**(407)**
	14,176	**12,341**

In addition to the equity placement fees accounted for above, the Fund has approximately $514 of fees available to be deducted over the next two years [2006 – $916]. The reversal of the patents and customer relationships and contracts accounts above will not give rise to income taxes payable.

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, through the issuance of units and/or convertible debt, in excess of $50 million per year.

Richards Packaging's capital structure involves commercially reasonable intercompany 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.

[expressed in thousands of dollars except for Unit and per Unit amounts]

14. RELATED PARTY TRANSACTIONS

Richards Packaging entered into the following related party transactions, which were measured at the exchange amount:

	2007 $	2006 $
Four leases of facilities from certain officers and their related entities	**476**	605
Product purchases from Vision *[note 15]*	**8,892**	8,428

15. JOINT VENTURE

Richards Canada owns a 50% interest in a joint venture, Vision. Financial information relating to the joint venture before inter-company eliminations is as follows:

	2007 $	2006 $		2007 $	2006 $
Balance sheet					
Assets			**Liabilities**		
Current assets	**1,690**	1,443	Current liabilities	**752**	398
Capital assets	**989**	1,181	Long-term debt	**55**	136
			Future income taxes	**41**	60
Total assets	**2,679**	**2,624**	**Total liabilities**	**848**	**594**

	2007 $	2006 $
Statement of income		
Revenue	**8,892**	8,428
Expenses	**9,091**	8,696
Net loss	**(199)**	**(268)**
Additional information		
Cash provided by operating activities	**250**	64
Cash used in investing activities	**186**	183
Cash used in financing activities	**82**	82

Since all of the sales of Vision are to Richards Canada, the above table reflects 100% of the balances and transactions of Vision.

16. FINANCIAL INSTRUMENTS

Fair value

Cash and cash equivalents, accounts receivable, income taxes recoverable/payable, bank indebtedness, accounts payable and accrued liabilities, distributions and dividends payable and due to previous shareholder are all short-term in nature and, as such, their carrying values approximate fair values. Cash and cash equivalents and accounts receivable are classified as held for trading and loans and receivables, respectively. All financial liabilities are classified as other liabilities.

The fair value of short- and long-term debt approximates the carrying value as these financial instruments bear interest at rates comparable to current market rates.

The fair value of the interest rate swap contracts represents an unrealized loss of $309 [2006- nil].

Credit risk

Concentration of credit risk with respect to trade accounts receivable is limited due to the large number of customers and their geographical dispersion. At December 31, 2007, no customer represented 10% or more of accounts receivable [2006 – one customer represented 10.9%] and no customer represented 10% or more of the sales [2006 – nil]. In the event of non-payment by customers, management believes that the allowance for doubtful accounts is adequate to cover any likely losses.

Interest rate risk

Richards Packaging is exposed to interest rate risk in the event of fluctuations in LIBOR and the bank's prime rate as the interest rates on the revolving and acquisition credit facilities and term loan are dependent on either LIBOR or the bank's prime rate. On September 10, 2007, Richards Canada had entered into interest rate swap contracts with approved creditworthy counterparties to manage current and anticipated exposure to interest rate risk through June 5, 2009 on a notional principal amount equal to U.S.$30,000. The interest rate swap agreement converts the variable interest rate on the term debt outstanding to a fixed rate of 4.6% plus an applicable margin. Richards Packaging has not accounted for its interest rate swap contracts as hedges in accordance with the provisions of CICA Section 3865, "Hedges". As a result, fluctuations in the market value of the interest rate swap contracts are recorded in the consolidated financial statements.

Foreign currency risk

Richards Packaging is exposed to U.S./Cdn. currency fluctuations on cross-border transactions and on translation of the net investment in, and earnings of, Richards Packaging subsidiaries in the United States. A foreign currency gain of $291 from operations has been recorded for the year ended December 31, 2007 [2006 – $33].

[expressed in thousands of dollars except for Unit and per Unit amounts]

A foreign currency gain of $4,628 from the translation of the U.S. dollar denominated debt has been recorded for the year ended December 31, 2007 [2006 – $7]. The foreign currency gain is a result of the change in the U.S./Cdn. rate from $1.1653 to $0.9881 [2006 – $1.1659 to $1.1653].

17. CONSOLIDATED STATEMENTS OF CASH FLOWS

The components of cash and cash equivalents consist entirely of cash.
The net change in non-cash operating elements of working capital consists of the following:

	2007 $	**2006** $
Accounts receivable	**868**	2,214
Inventory	**(2,147)**	194
Prepaid expenses	**(1,203)**	(103)
Accounts payable and accrued liabilities	**(1,161)**	1,530
Income taxes recoverable/payable	**(411)**	255
	(4,054)	4,090

The cash flow impact of interest and income taxes consists of the following:

	2007 $	**2006** $
Interest paid	**3,165**	3,269
Income taxes paid	**(894)**	(595)

Non cash investing and financing activities

On October 31, 2007, Richards Packaging acquired all the outstanding shares of McKernan with U.S.$10,000 of the purchase price being settled by the issuance of 1,052.632 exchangeable shares valued at U.S.$9.50 per share *[notes 5 and 11]*.

18. SEGMENTED INFORMATION

Richards Packaging operations consist of one reporting segment, principally in the distribution of plastic and glass containers. The geographic distribution of revenue, capital assets and goodwill is as follows:

	Canada		**United States**	
	2007 $	**2006** $	**2007** $	**2006** $
Revenue	**104,925**	110,322	**53,083**	48,683
Capital assets and goodwill	**41,531**	42,518	**33,051**	19,661

Revenue by geographic segment is determined based on the country of shipment.