AUDITORS' REPORT

To the Unitholders of
Richards Packaging Income Fund

We have audited the consolidated balance sheets of Richards Packaging Income Fund as at December 31, 2005 and 2004 and the consolidated statements of income and deficit and cash flows for the year ended December 31, 2005 and for the period from April 7, 2004 to December 31, 2004. 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 audits.

We conducted our audits 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, 2005 and 2004 and the results of its operations and its cash flows for the year ended December 31, 2005 and for the period from April 7, 2004 to December 31, 2004 in accordance with Canadian generally accepted accounting principles.

Toronto, Ontario
March 13, 2006

(Signed) Ernst & Young LLP
Chartered Accountants

Richards Packaging Income Fund

CONSOLIDATED BALANCE SHEETS

[expressed in thousands of dollars]

As at December 31

	2005 $	2004 $ *[restated-note 3]*
ASSETS *[note 8]*		
Current		
Cash and cash equivalents	**479**	**3,507**
Accounts receivable	**23,367**	**20,872**
Inventory	**24,440**	**22,253**
Prepaid expenses	**1,078**	**1,492**
Income taxes recoverable	**43**	**1,245**
Total current assets	**49,407**	**49,369**
Capital assets, net *[note 5]*	**6,221**	**6,747**
Deferred financing fees, net	**808**	**1,474**
Intangible assets, net *[note 6]*	**48,489**	**47,373**
Future income taxes *[note 12]*	**3,636**	**3,337**
Goodwill *[notes 1, 3, 4 and 7]*	**57,289**	**55,104**
	165,850	**163,404**
LIABILITIES AND UNITHOLDERS' EQUITY		
Current		
Bank indebtedness	**1,312**	**—**
Accounts payable and accrued liabilities	**17,809**	**21,817**
Income taxes payable	**186**	**276**
Distributions payable to unitholders *[note 11]*	**959**	**876**
Dividends payable to exchangeable shareholders *[note 10]*	**49**	**45**
Due to officers *[note 14]*	**40**	**684**
Short-term debt and current portion of long-term debt *[note 8]*	**15,765**	**3,653**
Total current liabilities	**36,120**	**27,351**
Long-term debt *[note 8]*	**21,287**	**22,020**
Future income tax *[note 12]*	**18,663**	**18,309**
Total liabilities	**76,070**	**67,680**
Non-controlling interests *[notes 3 and 10]*	**4,442**	**4,731**
Commitments and contingencies *[note 9]*		
Unitholders' equity *[note 3 and 10]*		
Units *[note 11]*	**95,772**	**95,772**
Deficit	**(6,845)**	**(2,208)**
Cumulative translation adjustment *[note 13]*	**(3,589)**	**(2,571)**
Total unitholders' equity	**85,338**	**90,993**
	165,850	**163,404**

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

"Wayne McLeod"	*"Gerry Glynn"*	*"Enzio Di Gennaro"*
Chair – audit committee	CEO	CFO

Richards Packaging Income Fund

CONSOLIDATED STATEMENTS OF INCOME AND DEFICIT

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

For the year ended December 31, 2005 and
the period from April 7 to December 31, 2004

	2005 $	2004 $
Revenue	**165,280**	**113,318**
Cost of products sold	**140,960**	**96,922**
	24,320	**16,396**
General and administrative expenses	**9,253**	**5,871**
Foreign currency gains from operations *[note 16]*	**(254)**	**(449)**
Long-term incentive plan *[note 11]*	**96**	**—**
Income before under noted items, income taxes and non-controlling interests	**15,225**	**10,974**
Amortization		
Capital assets *[note 5]*	**2,386**	**1,506**
Intangible assets *[note 6]*	**5,344**	**5,127**
Deferred financing fees	**670**	**494**
Interest expense *[note 8]*	**2,312**	**1,154**
Unrealized losses (gains) on financial instruments *[note 16]*		
Interest rate swap contracts	**15**	**(237)**
Foreign exchange forward agreement	**151**	**(151)**
Foreign exchange on translation of short- and long-term debt	**(1,343)**	**(1,802)**
Income before income taxes and non-controlling interests	**5,690**	**4,883**
Provision (recovery) for income taxes *[note 12]*		
Current	**482**	**286**
Future	**(2,015)**	**(1,088)**
	(1,533)	**(802)**
Income before non-controlling interests	**7,223**	**5,685**
Non-controlling interests *[notes 3 and 10]*	**352**	**244**
Net income for the period	**6,871**	**5,441**
Deficit, beginning of period	**(2,208)**	**—**
Distributions declared to unitholders *[note 11]*	**(11,508)**	**(7,649)**
Deficit, end of period	**(6,845)**	**(2,208)**
Basic and diluted income per Unit	**$0.670**	**$0.530**
Weighted average number of Units outstanding		
Basic	**10,256,327**	**10,256,327**
Diluted	**10,781,012**	**10,719,810**

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 year ended December 31, 2005 and
the period from April 7 to December 31, 2004

	2005 $	2004 $
OPERATING ACTIVITIES		
Net income for the period	6,871	5,441
Add (deduct) items not involving cash		
Amortization	8,400	7,127
Future income taxes	(2,015)	(1,088)
Non-controlling interests *[notes 3 and 10]*	352	244
Unrealized losses (gains) on financial instruments *[note 16]*	166	(388)
Unrealized foreign exchange gain on short- and long-term debt	(1,343)	(1,802)
	12,431	9,534
Net change in non-cash operating elements of working capital *[note 17]*	(6,788)	2,347
Cash provided by operating activities	5,643	11,881
INVESTING ACTIVITIES		
Additions to capital assets	(1,848)	(1,608)
Expenditures on patents and trademarks	(131)	—
Acquisition of Richards Packaging, net of cash acquired $112 *[note 1]*	—	(69,185)
Acquisitions, net of cash acquired $272 [2004 -$163] *[note 4]*	(7,242)	(6,352)
Cash used in investing activities	(9,221)	(77,145)
FINANCING ACTIVITIES		
Increase (decrease) in bank indebtedness	1,312	(664)
Proceeds from short- and long-term debt, net	13,722	3,563
Repayment of short-term debt	(1,000)	—
Initial public offering of Fund Units, net of expenses	—	75,921
Repayment of due to officers	(644)	(244)
Dividends paid to exchangeable shareholders	(585)	(307)
Distributions paid to unitholders	(11,425)	(6,773)
Cash provided by financing activities	1,380	71,496
Foreign exchange loss	(830)	(2,725)
Net increase (decrease) in cash and cash equivalents	(3,028)	3,507
Cash and cash equivalents, beginning of period	3,507	—
Cash and cash equivalents, end of period	479	3,507

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

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

1. FORMATION OF THE FUND AND ACQUISITION

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 remained inactive until April 7, 2004 when the Fund completed an initial public offering of 8,569,913 trust Units of the Fund [the "Units"] at a price of $10 per Unit, realizing gross proceeds of $85,699, to facilitate the acquisition of Richards Packaging Inc. shares and an indenture note through a series of transactions.

The Fund indirectly purchased 96% of the shares of Richards Packaging Inc. for $86,161, including acquisition costs of $417. The consideration consisted of $68,880 in cash and the issuance of 1,686,414 Units at a price of $10 per Unit. In addition, 455,185 Richards Packaging Holdings Inc.'s exchangeable shares were issued to officers for the remaining 4% of the outstanding shares of Richards Packaging Inc. These shares are reflected as non-controlling interests. This acquisition has been accounted for using the purchase method and accordingly, the results of operations from April 7, 2004 have been included in these consolidated financial statements. The consideration paid has been allocated to the assets acquired based on their fair values and the excess of the purchase price over the value of the net identifiable assets acquired has been recorded as goodwill. All acquired intangible assets, other than goodwill, are subject to amortization. The allocation of the purchase price is as follows:

	$
Current assets	**42,715**
Capital assets	**6,445**
Deferred financing fees	**1,977**
Customer orders	**1,500**
Customer relationships and contracts	**47,700**
Total assets acquired	**100,337**
Current liabilities	**20,583**
Long-term debt	**23,958**
Future income tax liability	**17,676**
Total liabilities assumed	**62,217**
Non-controlling interests *[notes 3 and 10]*	**4,263**
Fair value of net assets acquired	**33,857**
Goodwill	**52,304**
Purchase price	**86,161**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles.

Principles of consolidation

The consolidated financial statements include the accounts of the Fund, 96% of Richards Packaging Holdings Inc. ["Holdings"], Richards Packaging Inc. ["Richards Canada"], and Richards Packaging, Inc. ["Richards US"], both wholly-owned directly or indirectly by Holdings, and 50% of Vision Plastics Inc. ["Vision"], one of its three plastic container manufacturing plants, which is jointly controlled. The remaining 4% of Holdings is classified as non-controlling interests. All the subsidiaries of the Fund 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

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. Balances with the right of offset are netted against bank indebtedness.

Inventory

Raw materials are valued at the lower of cost and replacement value and 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 operations 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 the term of the lease

Deferred financing fees

The costs of obtaining long-term debt are deferred and amortized on a straight-line basis over the term of the debt to which those costs relate.

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. Customer orders were amortized as shipped. Customer relationships and contracts are amortized over 10 years, patents over 12 years and trademarks over 11 years.

Goodwill

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

The Fund performs its impairment test on its acquired goodwill annually, or more frequently if circumstances indicate a possible impairment. Management reviews the carrying amount of goodwill 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 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 subject to amortization 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 their undiscounted future net cash flows. Should impairment exist, the impairment 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. The Fund has not identified any such impairment losses to date.

Bank indebtedness

Bank indebtedness represents issued and outstanding cheques which have not yet been applied to the revolving credit facility.

Income taxes

Income tax obligations relating to distributions of the Fund are the obligations of the unitholders, and accordingly, no provision for income taxes has been made in respect of the Fund itself. A provision for the Fund's subsidiary companies which are subject to tax has been recognized.

The Fund's subsidiary companies 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 of the Fund is eligible to participate in the Fund's long-term incentive plan. For a period of three years beginning April 7, 2004, the Fund will purchase in the open market Units to be awarded to the extent that distributions to the unitholders exceed the annual target of $1.025 per Unit. Long-term incentive plan costs are accrued based on excess distributions and recognized on a graded basis over the vesting period.

Foreign currency translation

The unit of measure for the Fund and related entities, except for Richards US, is the Canadian dollar and accounts in foreign currency have been translated into Canadian dollars. Monetary items are recorded at exchange rates in effect at the consolidated balance sheet date 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 period, except for amortization, which is translated at rates prevailing when the related assets were acquired. Gains and losses arising from foreign currency translation are included in income.

Richards US is treated as a self-sustaining foreign operation. All assets and liabilities are translated at exchange rates in effect at the consolidated balance sheet date. Revenue and expenses, including amortization, are translated at average exchange rates prevailing during the period. Any resulting gains or losses are included in unitholders' equity as a cumulative translation adjustment.

Derivative financial instruments

Derivative financial instruments are utilized from time to time to reduce foreign currency and interest rate risk on the Fund's debt. The Fund does not enter into financial instruments for trading or speculative purposes.

The Fund has not elected to designate its interest rate swap contracts and foreign currency standard rate agreements as hedges for accounting purposes and, accordingly, will record the fair value of these derivatives using a mark-to-market valuation basis, with changes during the period recognized in net income.

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.

3. CHANGE IN ACCOUNTING POLICY

The Fund adopted effective January 1, 2005 the new Canadian Institute of Chartered Accountants ["CICA"] standards for Exchangeable Securities Issued by Subsidiaries of Income Trusts ["EIC 151"], which states that the exchangeable securities issued by a subsidiary of an income trust should be reflected as either non-controlling interests or debt on the consolidated balance sheet unless they meet certain criteria. The exchangeable shares issued by Holdings are transferable to third parties and therefore are reflected as non-controlling interests. Previously, the exchangeable shares, dividends, earnings and cumulative translation adjustment associated with non-controlling interests were a component of unitholders' equity. Consolidated net income for 2005 and 2004 has been reduced by the non-controlling interests' share of earnings. Goodwill has been reduced by $289 on April 7, 2004.

In accordance with the transitional provisions of EIC 151, this accounting abstract has been applied retroactively, with restatement of the prior period *[notes 10 and 11]*.

4. ACQUISITIONS

Effective July 29, 2005, the Fund indirectly acquired all the shares of Dispill Inc. ["Dispill"] for consideration of $7,514 including acquisition costs of $92. The consideration was satisfied by a cash payment which was financed by the acquisition credit facility *[note 8]*.

Effective November 30, 2004, the Fund indirectly acquired all the shares of Kay Containers Ltd. ["Kay"], Calgary Plastics Container Supply Ltd. ["Calgary"] and M.A. Foss Distributors Ltd. ["Foss"] for consideration of $7,636 including acquisition costs of $110. The consideration was satisfied by cash payments of $6,405, which was partially financed by the acquisition credit facility, and the issuance of 69,500 Holdings exchangeable shares at $10 per share *[note 10]* and an obligation of $426 to the former shareholders associated with various representations and warranties in the purchase and sale agreements.

The necessary steps were taken to combine Dispill effective July 29, 2005 and Kay, Foss and Calgary effective December 1, 2004 within the legal structure of the Fund's subsidiaries.

These acquisitions have been accounted for by the purchase method. Consequently, the results of operations and cash flows are included in the consolidated financial statements from the respective effective dates of acquisition. The allocation of the purchase prices is outlined on the following page:

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

	2005	2004			
	Dispill	**Foss**	**Kay**	**Calgary**	**Total**
	$	$	$	$	$
Current assets	**1,060**	**483**	**1,681**	**118**	**2,282**
Capital assets	**69**	**11**	**221**	**36**	**268**
Patents and trademarks	**4,030**	**—**	**—**	**—**	**—**
Customer relationships and contracts	**2,300**	**1,800**	**1,500**	**—**	**3,300**
Total assets acquired	**7,459**	**2,294**	**3,402**	**154**	**5,850**
Current liabilities	**424**	**224**	**1,060**	**97**	**1,381**
Future income tax liability	**2,283**	**624**	**561**	**—**	**1,185**
Total liabilities assumed	**2,707**	**848**	**1,621**	**97**	**2,566**
Fair value of net assets acquired	**4,752**	**1,446**	**1,781**	**57**	**3,284**
Goodwill *[note 7]*	**2,762**	**1,968**	**1,332**	**1,052**	**4,352**
Purchase price	**7,514**	**3,414**	**3,113**	**1,109**	**7,636**

5. CAPITAL ASSETS

		Accumulated	Net book value	
	Cost	**amortization**	**2005**	**2004**
	$	$	$	$
Manufacturing equipment	**4,114**	**1,833**	**2,281**	**2,580**
Moulds	**3,008**	**1,248**	**1,760**	**1,624**
Computer equipment	**546**	**193**	**353**	**382**
Computer software and system implementation	**1,467**	**314**	**1,153**	**1,411**
Warehouse and office equipment	**821**	**251**	**570**	**651**
Leasehold improvements	**157**	**53**	**104**	**99**
	10,113	**3,892**	**6,221**	**6,747**

Cost represents the fair value of the capital assets acquired in the initial acquisition of Richards Packaging Inc. *[note 1],* from subsequent acquisitions *[note 4]* and the cost of capital asset additions by the Fund's subsidiaries.

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

6. INTANGIBLE ASSETS

[notes 1 and 4]	Cost $	Accumulated amortization $	Net book value 2005 $	Net book value 2004 $
Customer orders	**1,500**	**1,500**	**—**	—
Customer relationships and contracts	**53,300**	**8,828**	**44,472**	47,373
Patents and trademarks	**4,161**	**144**	**4,017**	—
	58,961	**10,472**	**48,489**	47,373

Cost represents the fair value of intangible assets acquired with the purchase of Richards Packaging Inc. *[note 1]* and the acquisitions *[note 4]*. Intangible assets amortization is not deductible for tax purposes.

7. GOODWILL

Changes in the carrying amounts of goodwill are as follows:

[notes 1 and 4]	2005 $	2004 $
Opening goodwill	**55,104**	—
Acquired on the initial acquisition as at April 7, 2004	**—**	52,304
Acquired on acquisitions during the period	**2,762**	4,352
Foreign currency translation	**(577)**	(1,552)
	57,289	55,104

The foreign currency translation loss is associated with the goodwill related to Richards US. The goodwill is not deductible for tax purposes.

8. SHORT AND LONG-TERM DEBT

Immediately prior to the initial public offering by the Fund, Richards Packaging Inc. obtained new credit facilities. The revolving and acquisition credit lines were refinanced on June 5, 2005. Fees associated with this refinancing are deferred and amortized over the three-year term of these facilities. Credit facilities available to the Fund are outlined below:

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

December 31, 2005

Debt facility	Due date	Interest rate	Outstanding balance 2005	2004	Total facilities
			$	$	$
Revolving credit	June 5, 2006	See [i] below	**2,200**	—	**7,000**
Acquisition credit	June 5, 2006	See [ii] below	**13,525**	3,602	**13,991**
Term loan	See [iii] below	See [iii] below	**40**	51	**40**
Short-term debt and current portion of long-term debt			**15,765**	3,653	**21,031**
Term loan	April 6, 2007	See [iv] below	**21,219**	21,906	**21,219**
Term loan	See [iii] below	See [iii] below	**68**	114	**68**
Long-term debt			**21,287**	22,020	**21,287**

[i] The revolving credit facility consists of a Canadian operating line of credit of $7,000 [2004 – $5,000] bearing interest at the prime rate plus a premium of 1.0% to 1.75% and a standby fee of 0.4% to 0.55%. The effective interest rate at December 31, 2005 is 6.7%.

[ii] The acquisition credit facility consists of a line of credit of U.S.$12,000 [2004 – U.S.$5,250] bearing interest at LIBOR plus a premium of 2.0% to 2.75% and a standby fee of 0.4% to 0.55%. The effective interest rate at December 31, 2005 is 6.3% [2004 – 4.9%].

[iii] The outstanding balance consists of a term loan of $108 [2004 – $165] bearing interest at the prime rate plus 0.75% with monthly principal repayments of $3. The term loan matures August 5, 2008. The effective interest rate at December 31, 2005 is 5.7% [2004 – 4.7%].

[iv] The term loan consists of a U.S.$18,200 loan bearing interest at LIBOR plus a premium of 2.0% to 2.75%. The interest rate is subject to a fixed rate swap with an effective interest rate for the year of 5.0%, which is approximately 1.8% below the variable rate during the year [2004 – 0.7% above].

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, 2005 is comprised as follows: term loan, revolving credit and acquisition credit interest of $1,837 [2004 – $863], credit card commission charges of $265 [2004 – $206] and credit facility charges of $210 [2004 – $85].

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 U.S.$18,200 term loan. The term loan noted in [iii] above is secured by a first charge on all of Vision's assets.

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

9. COMMITMENTS AND CONTINGENCIES

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

	Related parties	**Other**	**Total**
	$	$	$
2006	**803**	**2,209**	**3,012**
2007	**803**	**2,030**	**2,833**
2008	**641**	**1,837**	**2,478**
2009	**24**	**1,617**	**1,641**
2010	—	**392**	**392**
Thereafter	—	**986**	**986**

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

10. NON-CONTROLLING INTERESTS

The non-controlling interests represent exchangeable shares issued by Holdings to officers of Richards Canada on the initial public offering *[note 1]* and as partial consideration for a business acquisition *[note 4]*. The exchangeable shares**,** dividends, cumulative translation adjustment and earnings associated with the non-controlling interests were formerly included in unitholders' equity *[note 3]*.

	Number of shares	**Dividends per share**	**Deficit** $	$
Initial public offering, April 7, 2004	**455,185**			**4,263**
Additional shares issued in the period	**69,500**			**695**
Allocation of cumulative translation adjustment				**(119)**
Non-controlling interest - net income			**244**	
Dividends for the period		$***0.746***	**(352)**	**(108)**
Balance, December 31, 2004	**524,685**			**4,731**
Allocation of cumulative translation adjustment				**(52)**
Non-controlling interest - net income			**352**	
Dividends for the year		$***1.122***	**(589)**	**(237)**
Balance, December 31, 2005	**524,685**			**4,442**

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

These exchangeable shares are redeemable by Holdings on April 7, 2009, 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. Exchangeable shares carry the right to vote at any meeting that unitholders are entitled to vote on the same basis.

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.

11. UNITS

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)**
	10,256,327	**95,772**

No new Units were issued after April 7, 2004, the date of the initial public offering. Exchangeable share capital [$5,247] has been reclassified as non-controlling interests *[notes 3 and 10].*

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. 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, 2005 were $959 or $0.0935 per Unit. Monthly distributions declared during the months of May to December 2004 were $876 or $0.0854 per Unit and for the period April 7 to April 30, 2004 was $642 or $0.0626 per Unit.

Long-term incentive plan

Key senior management of Richards Packaging are eligible to participate in the long-term incentive plan [the "LTIP"]. The purpose of the LTIP is to attract, retain and motivate key personnel who contribute significantly to per Unit cash flow. Units awarded under the LTIP will vest over a three-year period, with one-third of the Units vesting each year. To the extent that annual distributions exceed $1.025 per year, amounts will be contributed to the LTIP on the following basis:

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

Amount of excess distributions per Unit	**Payout of excess distributions % of excess**
< $0.05	10
$0.05 to $0.10	15
>$0.10	20

For the year ended December 31, 2005, $96 of compensation expense was recognized. Distributions for the period ended December 31, 2004 did not exceed the threshold and therefore no compensation expense was recognized.

12. INCOME TAXES

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

	2005 $	**2004** $
Income before income taxes and non-controlling interests	**5,690**	**4,883**
Distributions to unitholders, not subject to tax in the Fund	**(9,656)**	**(7,080)**
	(3,966)	**(2,197)**
Statutory tax rate	***36.1%***	***36.1%***
Recovery for income taxes at statutory tax rate	**(1,432)**	**(793)**
Adjustments to income taxes		
Temporary differences		
Unrealized gains on financial instruments	**(183)**	**(454)**
Equity placement fees	**(642)**	**(263)**
Penalty on discharge of debt	**(189)**	**(142)**
Intangible assets	**2,002**	**1,944**
Loss for income tax not utilized	**832**	**278**
Amortization	**110**	**(275)**
Other temporary differences	**85**	**—**
Current period adjustments		
Foreign exchange gain on translation of long-term-debt	**(238)**	**(326)**
Withholding tax on dividends and fees from Richards US	**141**	**348**
Loss for income tax not recognized	**38**	**—**
Other non-taxable items	**(42)**	**(31)**
Current income taxes	**482**	**286**
Recovery of future income taxes	**(2,015)**	**(1,088)**

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

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

	2005 $	2004 $
Future income tax assets		
Equity placement fees	**1,867**	**2,509**
Loan termination fees	**361**	**550**
Loss for income tax not utilized	**1,323**	**278**
Other	**85**	**—**
	3,636	**3,337**
Future income tax liabilities		
Capital assets	**352**	**462**
Unrealized gains on financial instruments	**628**	**445**
Patents and trademarks	**1,390**	**—**
Customer relationships and contracts	**16,293**	**17,402**
	18,663	**18,309**

In addition to the equity placement fees accounted for above, the Fund has approximately $1,320 of fees available to be deducted over the next four years. Also, in addition to the losses that have been recognized above, the Fund's subsidiaries have $1,918 of non-capital loss carry forwards which are available to reduce future years' income taxes payable. These loss carry forwards expire at the earliest in 2013. The reversal of the patents and trademarks and customer relationships and contracts accounts above will not give rise to income taxes payable.

The Fund structure involves inter-company debt, generating interest expense, which serves to reduce earnings and therefore income tax payable in the United States. Richards US claimed interest deductions with respect to the U.S. Notes ["Notes"] in computing its income for U.S. federal income tax purposes. The Fund received tax opinions on certain matters relating to this inter-company debt. The consolidated financial statements of the Fund reflect these opinions, specifically that the Notes should be respected as debt; and the interest on the Notes, of $1,464 for the year ended December 31, 2005 [2004 – $1,149], should be deductible by Richards US for United States federal income tax purposes, subject to any limitations under the earnings stripping rules.

There can be no assurance that the Internal Revenue Service ["IRS"] will not challenge the tax filing position taken by Richards US, in which case some or all of the otherwise deductible interest on the Notes would be treated as non-deductible distributions. Although management believes it is unlikely that the IRS would be successful, if the Notes are not respected as debt, and the full amount of interest is not deductible for U.S. federal income tax purposes, management estimates that the additional taxes in 2005 would be approximately $586, or $0.054 per Unit, on a diluted basis [2004 – $460, or $0.043 per Unit].

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

13. CUMULATIVE TRANSLATION ADJUSTMENT

The cumulative translation adjustment represents the effect of exchange rate variations on the translation of the Fund's net investment in Richards US, a self-sustaining foreign operation. The unrealized translation loss of $1,018 during the year ended December 31, 2005 and $2,571 for the period ended December 31, 2004 resulted from the strengthening of the Canadian dollar against the U.S. dollar.

14. RELATED PARTY TRANSACTIONS

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

	2005 $	2004 $
Four leases of facilities from certain officers and their related entities	**584**	318
Product purchases from Vision *[note 15]*	**8,262**	7,020

The amount due to certain officers of $40 as at December 31, 2005 is non-interest bearing and has no fixed terms of repayment [2004 – $684].

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:

Balance sheet	2005 $	2004 $
Assets		
Current assets	**1,673**	1,622
Capital assets	**1,454**	1,856
Total assets	**3,127**	3,478
Liabilities		
Current liabilities	**468**	621
Long-term debt	**218**	279
Future income taxes	**79**	102
Total liabilities	**765**	1,002

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

Statement of income		
Revenue	**8,262**	**7,020**
Total expenses	**8,374**	**7,000**
Net income (loss)	**(112)**	**20**
Additional information		
Cash provided by operating activities	**622**	**172**
Cash used in investing activities	**160**	**177**
Cash used in financing activities	**112**	**146**

Since all of the sales of Vision are to Richards Canada, the above table reflects 100% of the balance 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 payable to unitholders and dividends payable to exchangeable shareholders are all short-term in nature and, as such, their carrying values approximate fair values.

A reasonable estimate of fair value could not be made for the amounts due to officers, as there are no fixed terms of repayment.

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

The fair value of the interest rate swap contracts represent an unrealized gain of approximately $222 [2004 – $237].

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, 2005 and 2004 no customer represented 10% or more of the consolidated sales or accounts receivable balance. In the event of non-payment by the customers, management believes that the allowance for doubtful accounts is adequate to cover any likely losses.

Interest rate risk

The Fund 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 loans are dependent on either LIBOR or the bank's prime rate. The Fund has entered into interest rate swap contracts with approved creditworthy counterparties to manage current and anticipated exposure to interest rate risk through April 1, 2006 on a notional principal amount equal to the long-term loan. The Fund has not accounted for its interest rate swap contracts as hedges in accordance with the provisions of CICA Accounting Guideline 13, "Hedging Relationships". As a result, fluctuations in the market value of the interest rate swap contracts are recorded in the consolidated financial statements from period to period.

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

Foreign exchange risk

The Fund is exposed to Cdn./U.S.$ currency fluctuations on cross-border transactions and on translation of the net investment in, and earnings of, Richards US. A foreign currency standard rate agreement was in place at Cdn./U.S.$0.73 to sell U.S.$100 per month through September 30, 2005. The fair value of the foreign currency standard rate agreement as at December 31, 2004 represented an unrealized gain of $151.

A foreign exchange gain of $254 from operations has been recorded in the year ended December 31, 2005 [2004 - $449].

A foreign exchange gain of $1,343 from the translation of the U.S. dollar denominated short- and long-term debt has been recorded in the year ended December 31, 2005 [2004 – $1,802]. The foreign exchange gain is a result of the change in the U.S./Cdn. rate from $1.2036 to $1.1659 [2004 – $1.3048 to $1.2036].

17. CONSOLIDATED STATEMENTS OF CASH FLOWS

The net change in non-cash operating elements of working capital consists of the following:

	2005 $	**2004** $
Accounts receivable	**(1,645)**	**1,575**
Inventory	**(1,682)**	**(2,013)**
Prepaid expenses	**265**	**21**
Accounts payable and accrued liabilities	**(4,382)**	**2,467**
Income taxes recoverable	**656**	**297**
	(6,788)	**2,347**

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

	2005 $	**2004** $
Interest paid	**2,015**	**1,057**
Income taxes recovered	**95**	**206**

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

Non-cash investing and financing activities

On April 7, 2004, the Fund acquired all the outstanding shares of Richards Packaging Inc. with $16,864 of the purchase price being settled by the issuance of 1,684,414 Units valued at $10 per Unit *[note 1]*.

During the period ended December 31, 2004, the Fund acquired all the outstanding shares of Calgary with $695 of the purchase price being settled by the issuance of 69,500 exchangeable shares valued at $10 per share *[note 4]*.

18. SEGMENTED INFORMATION

The Fund's operations consist of one reporting segment, principally in the distribution of plastic and glass containers. The geographic distribution of revenue and assets are as follows:

	Canada		United States	
	2005	2004	2005	2004
	$	$	$	$
Revenue	**107,734**	69,879	**57,546**	43,439
Capital assets and goodwill	**43,351**	41,244	**20,159**	20,607

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