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, 2006 and 2005 and the consolidated statements of income and deficit and cash flows for the years 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 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, 2006 and 2005 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Toronto, Canada	**(Signed) Ernst & Young LLP**
February 23, 2007.	Chartered Accountants

Richards Packaging Income Fund

CONSOLIDATED BALANCE SHEETS

[expressed in thousands of dollars]

As at December 31

	2006	2005
	$	$
ASSETS *[note 7]*		
Current		
Cash and cash equivalents	**1,858**	479
Accounts receivable	**21,127**	23,367
Inventory	**24,175**	24,440
Prepaid expenses	**971**	1,078
Income taxes recoverable	**54**	43
Future income tax assets *[note 11]*	**487**	360
Total current assets	**48,672**	49,767
Capital assets, net *[note 4]*	**4,903**	6,221
Deferred financing fees, net	**380**	808
Intangible assets, net *[note 5]*	**43,087**	48,489
Future income tax assets *[note 11]*	**473**	245
Goodwill *[notes 1, 3 and 6]*	**57,276**	57,289
	154,791	162,819
LIABILITIES AND UNITHOLDERS' EQUITY		
Current		
Bank indebtedness	**—**	1,312
Accounts payable and accrued liabilities	**19,288**	17,849
Income taxes payable	**435**	186
Distributions payable to unitholders *[note 10]*	**959**	959
Dividends payable to exchangeable shareholders *[note 9]*	**49**	49
Short-term debt and current portion of long-term debt *[note 7]*	**40**	15,765
Total current liabilities	**20,771**	36,120
Long-term debt *[note 7]*	**34,987**	21,287
Future income tax liabilities *[note 11]*	**12,341**	15,632
Total liabilities	**68,099**	73,039
Non-controlling interests *[note 9]*	**4,291**	4,442
Commitments and contingencies *[note 8]*		
Unitholders' equity		
Units *[note 10]*	**95,772**	95,772
Deficit	**(9,843)**	(6,845)
Cumulative translation adjustment *[note 12]*	**(3,528)**	(3,589)
Total unitholders' equity	**82,401**	85,338
	154,791	162,819

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 INCOME AND DEFICIT

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

For the years ended December 31

	2006 $	2005 $
Revenue	**159,005**	**165,280**
Cost of products sold	**132,001**	**140,960**
	27,004	**24,320**
General and administrative expenses	**9,101**	**9,253**
Foreign currency gain from operations *[note 15]*	**(33)**	**(254)**
Long-term incentive plan *[note 10]*	**130**	**96**
Income before under noted items, income taxes and non-controlling interests	**17,806**	**15,225**
Amortization		
Capital assets *[note 4]*	**2,189**	**2,386**
Intangible assets *[note 5]*	**5,732**	**5,344**
Deferred financing fees	**509**	**670**
Interest expense *[note 7]*	**3,045**	**2,312**
Unrealized losses (gains) on financial instruments *[note 15]*		
Interest rate swap contracts	**222**	**15**
Foreign currency forward agreement	**—**	**151**
Foreign currency translation of short- and long-term debt	**(7)**	**(1,343)**
Income before income taxes and non-controlling interests	**6,116**	**5,690**
Provision for (recovery of) income taxes *[note 11]*		
Current	**817**	**482**
Future	**(3,646)**	**(2,015)**
	(2,829)	**(1,533)**
Income before non-controlling interests	**8,945**	**7,223**
Non-controlling interests *[note 9]*	**435**	**352**
Net income for the year	**8,510**	**6,871**
Deficit, beginning of year	**(6,845)**	**(2,208)**
Distributions declared to unitholders *[note 10]*	**(11,508)**	**(11,508)**
Deficit, end of year	**(9,843)**	**(6,845)**
Basic and diluted income per Unit	**$0.830**	**$0.670**
Weighted average number of Units outstanding		
Basic	**10,256,327**	**10,256,327**
Diluted	**10,781,012**	**10,781,012**

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

	2006 $	2005 $
OPERATING ACTIVITIES		
Net income for the year	**8,510**	**6,871**
Add (deduct) items not involving cash		
Amortization	**8,430**	**8,400**
Future income taxes	**(3,646)**	**(2,015)**
Non-controlling interests	**435**	**352**
Unrealized losses on financial instruments	**222**	**166**
Unrealized foreign currency gain on short- and long-term debt	**(7)**	**(1,343)**
	13,944	**12,431**
Net change in non-cash operating elements of working capital *[note 16]*	**4,090**	**(6,788)**
Cash provided by operating activities	**18,034**	**5,643**
INVESTING ACTIVITIES		
Additions to capital assets	**(884)**	**(1,848)**
Expenditures on patents and trademarks	**(330)**	**(131)**
Acquisition, net of cash acquired of $272 *[note 3]*	**—**	**(7,242)**
Cash used in investing activities	**(1,214)**	**(9,221)**
FINANCING ACTIVITIES		
Increase (decrease) in bank indebtedness	**(1,312)**	**1,312**
Proceeds from short- and long-term debt, net	**94**	**13,722**
Repayment of short-term debt	**(2,200)**	**(1,000)**
Repayment of due to officers	**—**	**(644)**
Dividends paid to exchangeable shareholders	**(589)**	**(585)**
Distributions paid to unitholders	**(11,508)**	**(11,425)**
Cash provided by (used in) financing activities	**(15,515)**	**1,380**
Foreign currency gain (loss)	**74**	**(830)**
Net increase (decrease) in cash and cash equivalents	**1,379**	**(3,028)**
Cash and cash equivalents, beginning of year	**479**	**3,507**
Cash and cash equivalents, end of year	**1,858**	**479**

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

December 31, 2006

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 exchangeable shares of Richards Packaging Holdings Inc. were issued to officers for the remaining 4% of the outstanding shares of Richards Packaging Inc. These shares are reflected as non-controlling interests.

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"], 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 non-controlling interests in Holdings is 4.87%. 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 & 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 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 lease term

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. Costs for patents and trademarks also include legal defense expenditures. Customer relationships and contracts are amortized over 10 years, patents over 12 years and trademarks over 11 years.

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.

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 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 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.

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 Richards Packaging is eligible to participate in the Fund's long-term incentive plan. 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 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 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 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 a cumulative translation adjustment.

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

Derivative financial instruments

Derivative financial instruments are utilized from time to time to reduce foreign currency and interest rate risks 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 year recognized in 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. ACQUISITION

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 7]*. The necessary steps were taken to combine Dispill effective July 29, 2005 within the legal structure of the Fund's subsidiary.

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	**1,060**	Current liabilities	**424**
Capital assets	**69**	Future income tax liabilities	**2,283**
Patents and trademarks	**4,030**		
Customer relationships and contracts	**2,300**		
Total assets acquired	**7,459**	**Total liabilities assumed**	**2,707**
Fair value of net assets acquired			**4,752**
Goodwill *[note 6]*			**2,762**
Purchase price			**7,514**

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

4. CAPITAL ASSETS

	Cost	Accumulated amortization	Net book value 2006	Net book value 2005
	$	$	$	$
Manufacturing equipment	**4,373**	**2,855**	**1,518**	**2,281**
Moulds	**3,363**	**1,847**	**1,516**	**1,760**
Computer equipment	**722**	**323**	**399**	**353**
Computer software and systems implementation	**1,478**	**608**	**870**	**1,153**
Warehouse and office equipment	**888**	**383**	**505**	**570**
Leasehold improvements	**174**	**79**	**95**	**104**
	10,998	**6,095**	**4,903**	**6,221**

5. INTANGIBLE ASSETS

	Cost	Accumulated amortization	Net book value 2006	Net book value 2005
	$	$	$	$
Customer relationships and contracts	**53,300**	**14,188**	**39,112**	**44,472**
Patents and trademarks	**4,491**	**516**	**3,975**	**4,017**
	57,791	**14,704**	**43,087**	**48,489**

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

6. GOODWILL

Changes in the carrying amounts of goodwill are as follows:

	2006	2005
	$	$
Goodwill, beginning of year	**57,289**	**55,104**
Acquired on acquisitions during the year	**—**	**2,762**
Foreign currency translation loss	**(13)**	**(577)**
Goodwill, end of year	**57,276**	**57,289**

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

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

7. SHORT- AND LONG-TERM DEBT

The term, revolving and acquisition credit lines were refinanced on May 12, 2006. Fees associated with the refinancing of the term credit line are deferred and amortized over the three-year term of these facilities. Credit facilities available to the Fund are outlined below:

Debt facility	Due date	Interest rate	Outstanding balance 2006	2005	Total facilities
			$	$	$
Revolving credit	June 4, 2007	See [i] below	**—**	**2,200**	**5,000**
Acquisition credit	June 4, 2007	See [ii] below	**—**	**13,525**	**8,157**
Term loan	See [iii] below	See [iii] below	**40**	**40**	**40**
Short-term debt and current portion of long-term debt			**40**	**15,765**	**13,197**
Term loan	June 5, 2009	See [iv] below	**34,959**	**21,219**	**34,959**
Term loan	See [iii] below	See [iii] below	**28**	**68**	**28**
Long-term debt			**34,987**	**21,287**	**34,987**

[i] The revolving credit facility consists of a Canadian operating line of credit of $5,000 [2005 – $7,000] bearing interest at the prime rate plus a premium of 0.4% to 1.0%. The effective interest rate at December 31, 2006 is 7.2% [2005 – 6.7%].

[ii] The acquisition credit facility consists of a line of credit of U.S.$7,000 [2005 – U.S.$12,000] bearing interest at LIBOR plus a premium of 1.4% to 2.0%. The effective interest rate at December 31, 2006 is 6.9% [2005 – 6.3%].

[iii] The outstanding balance consists of a term loan of $68 [2005 – $108] bearing interest at the prime rate plus 0.75% with monthly principal repayments of $3. The term loan matures on August 5, 2008. The effective interest rate at December 31, 2006 is 6.5% [2005 – 5.2%].

[iv] The term loan consists of a U.S.$30,000 loan [2005 – U.S.$18,200] bearing interest at LIBOR plus a premium of 1.4% to 2.0%. The effective interest rate at December 31, 2006 is 6.6% [2005 – 5.0% subject to a fixed rate swap].

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, 2006 is comprised as follows: term loan, revolving credit and acquisition credit interest of $2,508 [2005 – $1,837], credit card commission charges of $264 [2005 – $265] and credit facility charges of $273 [2005 – $210].

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

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.$30,000 term loan. The term loan noted in [iii] above is secured by a first charge on all of Vision's assets.

8. 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** $
2007	**406**	**2,449**	**2,855**
2008	**344**	**2,168**	**2,512**
2009	**25**	**1,616**	**1,641**
2010	**—**	**375**	**375**
2011	**—**	**203**	**203**
Thereafter	**—**	**522**	**522**

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 these matters will not have a material adverse effect on the financial position or operating results of the Fund.

9. 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.

	Number of shares	**Dividends per share**	**Deficit** $	$
Balance, December 31, 2004	**524,685**			**4,731**
Allocation of cumulative translation adjustment				**(52)**
Share of income			**352**	
Dividends		$***1.122***	**(589)**	**(237)**
Balance, December 31, 2005	**524,685**			**4,442**
Allocation of cumulative translation adjustment				**3**
Share of income			**435**	
Dividends		$***1.122***	**(589)**	**(154)**
Balance, December 31, 2006	**524,685**			**4,291**

[expressed in thousands of dollars 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.

10. 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**

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, 2006 were $959 [2005 – $959] or $0.0935 per Unit [2005 – $0.0935 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 of dollars 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, 2006, $130 of compensation expense was recognized [2005 – $96].

11. INCOME TAXES

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

	2006 $	**2005** $
Income before income taxes and non-controlling interests	**6,116**	**5,690**
Distributions to unitholders, not subject to income taxes in the Fund	**(9,721)**	**(9,656)**
Loss subject to income taxes	**(3,605)**	**(3,966)**
Statutory tax rate	***36.1%***	***36.1%***
Recovery of income taxes at statutory tax rate	**(1,302)**	**(1,432)**
Adjustments to income taxes		
Temporary differences		
Unrealized losses (gains) on financial instruments	**347**	**(183)**
Equity placement fees	**(629)**	**(642)**
Penalty on discharge of debt	**(163)**	**(189)**
Intangible assets	**2,898**	**2,002**
Loss for income taxes not utilized	**693**	**832**
Amortization	**191**	**110**
Working capital	**127**	**—**
Other temporary differences	**182**	**85**
Current period adjustments		
Change in enacted tax rates	**(877)**	**—**
Foreign currency loss (gain) on translation of long-term-debt	**1**	**(238)**
Withholding tax on dividends and fees from Richards US	**137**	**141**
Loss for income taxes (recognized) not recognized	**(880)**	**38**
Other items	**92**	**(42)**
Current income taxes	**817**	**482**
Recovery of future income taxes	**(3,646)**	**(2,015)**

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

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

	2006 $	2005 $
Future income tax assets – current		
Working capital	**487**	**360**
Future income tax assets – long-term		
Capital assets	**(1)**	**(43)**
Customer relationships and contracts	**(416)**	**(500)**
Equity placement fees	**532**	**796**
Loss for income taxes not utilized	**308**	**—**
Other	**50**	**(8)**
	473	**245**
Future income tax liabilities – long term		
Capital assets	**512**	**661**
Customer relationships and contracts	**13,156**	**15,793**
Equity placement fees	**(706)**	**(1,071)**
Loss for income taxes not utilized	**(1,708)**	**(1,323)**
Unrealized gains on financial instruments	**281**	**628**
Patents and trademarks	**1,213**	**1,390**
Other	**(407)**	**(446)**
	12,341	**15,632**

In addition to the equity placement fees accounted for above, the Fund has approximately $916 of fees available to be deducted over the next three years [2005 – $1,320]. The $1,918 of non-capital losses not recognized for the year ended December 31, 2005 were realized during the year ended December 31, 2006 as $384 of future income taxes and $96 of current income taxes. The reversal of the patents and trademarks and customer relationships and contracts accounts above will not give rise to income taxes payable.

On October 31, 2006, the Federal Minister of Finance announced proposed changes that may significantly affect the taxation of income trusts, including the Fund. The proposed new law will result in a two-tiered tax structure similar to that of corporations whereby the taxable portion of distributions would be subject to income tax payable by the Fund at a rate of 31.5%, and such distributions will be treated as if they were dividends paid by a Canadian corporation. The application of the tax proposals will be delayed to 2011 with respect to the Fund. There is no assurance that the draft legislation will be enacted in the manner proposed, or at all, therefore the impact on the valuation of future income tax assets and liabilities will not be reflected until such changes are enacted into law.

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

On December 15, 2006, the Federal Minister of Finance released additional guidance for income trusts which establishes objective tests with respect to permitted growth, through the issuance of units and/or convertible debt, without jeopardizing their transitional relief through to 2011. The growth limit that applies for the Fund is $50 million per year. If this limit is exceeded, the Fund may become immediately subject to the proposed tax.

The Fund's structure involves inter-company debt, generating interest expense, which serves to reduce income and therefore income taxes payable in the United States. Richards US claimed interest deductions with respect to the U.S. Notes [the "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 $1,371 for the year ended December 31, 2006 [2005 – $1,464], 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 2006 would be approximately $521, or $0.048 per Unit, on a diluted basis [2005 – $586, or $0.054 per Unit].

12. 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 gain of $61 during the year ended December 31, 2006 resulted from the changes in the underlying net investment offset by the slight strengthening of the Canadian dollar against the U.S. dollar [2005 – loss of $1,018].

13. RELATED PARTY TRANSACTIONS

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

	2006 $	**2005** $
Four leases of facilities from certain officers and their related entities	**605**	584
Product purchases from Vision *[note 14]*	**8,428**	8,262

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

14. 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:

	2006 $	2005 $		2006 $	2005 $
Balance sheet					
Assets			**Liabilities**		
Current assets	**1,443**	1,673	Current liabilities	**398**	468
Capital assets	**1,181**	1,454	Long-term debt	**136**	218
			Future income taxes	**60**	79
Total assets	**2,624**	**3,127**	**Total liabilities**	**594**	**765**
Statement of income					
Revenue				**8,428**	8,262
Expenses				**8,696**	8,374
Net loss				**(268)**	**(112)**

	2006 $	2005 $
Additional information		
Cash provided by operating activities	**64**	622
Cash used in investing activities	**183**	160
Cash used in financing activities	**82**	112

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

15. 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.

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.

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

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, 2006, one customer represented 10.9% of accounts receivable [2005 – nil] and no customer represented 10% or more of the sales [2005 – nil]. 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 loan are dependent on either LIBOR or the bank's prime rate. The Fund had entered into interest rate swap contracts with approved creditworthy counterparties to manage current and anticipated exposure to interest rate risk through April 1, 2006 on a notional principal amount equal to U.S.$18,200. 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 time to time.

Foreign currency 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 gain of $33 from operations has been recorded for the year ended December 31, 2006 [2005 – $254].

A foreign currency gain of $7 from the translation of the U.S. dollar denominated short- and long-term debt has been recorded for the year ended December 31, 2006 [2005 – $1,343]. The foreign currency gain is a result of the change in the U.S./Cdn. rate from $1.1659 to $1.1653 [2005 – $1.2036 to $1.1659].

16. CONSOLIDATED STATEMENTS OF CASH FLOWS

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

	2006 $	2005 $
Accounts receivable	**2,214**	**(1,645)**
Inventory	**194**	**(1,682)**
Prepaid expenses	**(103)**	**265**
Accounts payable and accrued liabilities	**1,530**	**(4,382)**
Income taxes recoverable/payable	**255**	**656**
	4,090	**(6,788)**

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

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

	2006	**2005**
	$	$
Interest paid	**3,269**	**2,015**
Income taxes recovered (paid)	**(595)**	**95**

17. 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, capital assets and goodwill are as follows:

	Canada		**United States**	
	2006	**2005**	**2006**	**2005**
	$	$	$	$
Revenue	**110,322**	**107,734**	**48,683**	**57,546**
Capital assets and goodwill	**42,518**	**43,351**	**19,661**	**20,159**

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

18. COMPARATIVE FINANCIAL STATEMENTS

Certain amounts in the comparative financial statements have been reclassified from statements previously presented to conform to the presentation of the 2006 consolidated financial statements.