

Auditor's Report

To the Shareholders of Sun-Rype Products Ltd.

We have audited the balance sheets of Sun-Rype Products Ltd. as at December 31, 2005 and 2004, and the statements of earnings and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company'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 financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2005 and 2004, and the results of its operations and cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants
Vancouver, British Columbia
March 2, 2006

Balance Sheets

As at December 31 (in thousands of dollars)

	2005	2004
Assets		
Current assets		
Cash and cash equivalents	\$ 19,965	\$ 9,140
Accounts receivable (note 2)	11,868	12,194
Inventories (note 3)	13,331	14,546
Prepaid expenses	515	469
Future income taxes (note 9)	262	281
	<hr/> 45,941	<hr/> 36,630
Property, plant and equipment (note 4)	22,312	23,999
Deferred expenses	-	41
	<hr/> \$ 68,253	<hr/> \$ 60,670
Liabilities and Shareholders' Equity		
Current liabilities		
Promissory note (note 6)	\$ 675	\$ 675
Accounts payable and accrued liabilities	16,211	14,826
Income taxes payable	919	99
	<hr/> 17,805	<hr/> 15,600
Long-term obligations	430	184
Future income taxes (note 9)	1,735	1,828
	<hr/> 19,970	<hr/> 17,612
Shareholders' equity		
Share capital and contributed surplus (note 7)	18,698	18,698
Retained earnings	29,585	24,360
	<hr/> 48,283	<hr/> 43,058
	<hr/> \$ 68,253	<hr/> \$ 60,670

Commitments, guarantees and contingencies (note 11)

Approved by the Board of Directors



D. Selman, Director



J. Alfonso, Director

See accompanying notes to these financial statements.

Statements of Earnings & Retained Earnings

For the years ended December 31 (in thousands of dollars except per share amounts)

	2005	2004
Net sales (note 14)	\$ 125,411	\$ 115,214
Cost of sales	80,618	75,973
Gross profit	44,793	39,241
Selling, general & administrative expenses	30,770	27,539
Amortization	3,898	3,358
Interest expense	39	86
Loss (gain) on capital dispositions	60	(691)
	34,767	30,292
Earnings before income taxes	10,026	8,949
Income taxes (note 9)	3,502	3,098
Net earnings	6,524	5,851
Retained earnings, beginning of year	24,360	19,483
Dividends paid	(1,299)	(974)
Retained earnings, end of year	\$ 29,585	\$ 24,360
Earnings per share (note 12)		
Basic	\$ 0.60	\$ 0.54
Diluted	0.60	0.54

See accompanying notes to these financial statements.

Statements of Cash Flows

For the years ended December 31 (in thousands of dollars)

	2005	2004
Cash provided by (used in):		
Operating activities		
Net earnings	\$ 6,524	\$ 5,851
Non-cash items:		
Amortization of property, plant and equipment	3,857	3,346
Amortization of deferred expenses	41	12
Loss (gain) on capital dispositions	60	(691)
Future income taxes (note 9)	(74)	349
Employee future benefits and other	246	124
	10,654	8,991
Changes in non-cash working capital items (note 10)	3,700	(3,241)
	14,354	5,750
Financing activities		
Capital lease payment	-	(12)
Long-term obligations repaid	-	(586)
Dividends paid	(1,299)	(974)
Shares purchased and cancelled	-	(281)
Proceeds from issue of shares	-	182
	(1,299)	(1,671)
Investing activities		
Proceeds on capital dispositions	187	974
Expenditures for property, plant and equipment	(2,417)	(4,508)
	(2,230)	(3,534)
Increase in cash position	10,825	545
Cash and cash equivalents, beginning of year	9,140	8,595
Cash and cash equivalents, end of year	\$ 19,965	\$ 9,140
Supplemental information on cash flows		
Interest paid	\$ 39	\$ 37
Income taxes paid	2,947	3,244

See accompanying notes to these financial statements.

Notes to the Financial Statements

For the years ended December 31, 2005 and 2004

1. Significant Accounting Policies

(a) Basis of presentation

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles (“Canadian GAAP”).

(b) Measurement uncertainty

The presentation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses disclosed during reporting periods. Significant areas that involve estimates include provisions for uncollectible accounts receivable, the amortization rate and estimated useful life of property, plant and equipment, provisions for sales returns and allowances, and provisions for obsolete inventory. The actual amounts could differ from those estimates.

(c) Foreign currency translation

Transactions denominated in foreign currencies are translated into Canadian dollars at the exchange rate prevailing at the time of the transactions. At the balance sheet date, monetary assets and liabilities denominated in a foreign currency are translated at the period end rate of exchange. Exchange gains and losses arising on translation or settlement of foreign currency-denominated monetary items are included in the determination of net income for the current period.

(d) Cash and cash equivalents

Cash and cash equivalents include cash and short-term deposits in high quality, low risk money market instruments, which are cashable on demand 90 days or less from the date of issue.

(e) Inventories

Raw materials and supplies are recorded at the lower of cost, determined on a weighted average basis, and replacement cost.

Finished goods are recorded at the lower of cost and net realizable value. Finished goods include the cost of direct labour, direct materials and variable overheads related to production, applied at a standard rate, which approximates actual costs. Fixed overhead costs related to production are considered a period cost and, as such, are not included as a component of inventory but are expensed in the period they are incurred.

(f) Property, plant and equipment

Property, plant and equipment are recorded at cost, net of investment tax credits. The Company uses the straight-line method of providing amortization over the estimated lives of the property, plant and equipment as follows:

Buildings	15–40 years
Equipment	
Processing	5–25 years
Other	3–12 years

(g) Impairment of long-lived assets

The Company regularly compares the carrying value of long-lived assets to the estimated undiscounted future cash flows that may be generated from future use and eventual disposition of those assets. The Company records an impairment loss in the period when it is determined that the carrying amount of the asset exceeds the undiscounted estimate of future cash flows from the asset. The impairment loss is measured as the difference between the carrying amount and estimated fair value of the asset.

(h) Marketing and product launch costs

The Company records new product marketing and launch costs as an expense when incurred.

(i) Asset retirement obligations

The Company recognizes legal obligations associated with the retirement of property, plant and equipment that result from its acquisition, construction or normal operations. These obligations are recorded at fair value and subsequently adjusted for the accretion of discount and any changes in the underlying cash flows. The asset retirement cost is capitalized as part of the cost of the related asset, then amortized to earnings over the remaining life of the asset. The Company has determined that it has no material asset retirement obligations at December 31, 2005.

(j) Income taxes

The Company uses the liability method of accounting for income taxes. Under this method, temporary differences arising from the tax basis of an asset or liability and the corresponding carrying amount on the balance sheet are used to calculate future income tax assets or liabilities. Future income tax assets or liabilities are calculated using tax rates anticipated to be in effect in the periods that the temporary differences are expected to reverse. The effect of a change in income tax rates on future income tax assets and liabilities is recognized in income in the period the change occurs.

(k) Revenue recognition

Sales are recognized upon the transfer of risk and title to finished goods to customers, which typically occurs upon shipment and when collectibility of proceeds is reasonably assured. The Company deducts from gross sales all payments to customers related to pricing discounts, returns and allowances, certain sales and marketing discounts, promotion funds, co-operative advertising, coupons and product listing fees.

(l) Stock-based compensation plans

The Company has stock-based compensation plans, which are described more fully in note 7. Contributions by the Company to the employees' share purchase plan, which is available to all permanent full- and part-time employees, are recorded as a compensation expense. Shares are purchased on the employees' behalf by the Company's plan administrator.

The Company records stock-based compensation and other stock-based payments to employees and third parties as a stock-based compensation expense in the statement of earnings. The compensation expense is measured using a fair-value based method. As no stock options or stock-based payments were issued to employees or others during the years ended December 31, 2005 and 2004, the application of this accounting policy had no material impact on the results of operations and financial position of the Company or the related financial statement disclosure.

(m) Foreign exchange forward contracts

The Company periodically enters into foreign exchange forward contracts to manage foreign exchange risk associated with anticipated future purchases denominated in foreign currencies. Realized and unrealized gains and losses resulting from changes in the market value of these contracts are recorded as other investment income each period unless they meet specified criteria to qualify as hedging instruments under Canadian GAAP. If these contracts meet the criteria for hedging instruments, any unrealized gains or losses are deferred and recognized in earnings when the related hedge transaction occurs.

2. Accounts Receivable (in thousands of dollars)

	2005	2004
Trade	\$ 10,964	\$ 11,479
Other	904	715
Total	\$ 11,868	\$ 12,194

3. Inventories (in thousands of dollars)

	2005	2004
Parts	\$ 1,899	\$ 1,656
Raw materials and supplies	6,158	6,610
Finished goods	5,274	6,280
Total	\$ 13,331	\$ 14,546

4. Property, Plant and Equipment (tabular dollar amounts in thousands)

	2005			2004		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Land	\$ 170	\$ -	\$ 170	\$ 179	\$ -	\$ 179
Buildings	16,475	11,487	4,988	16,085	10,796	5,289
Processing equipment	38,659	24,038	14,621	39,606	23,296	16,310
Other equipment	7,850	5,317	2,533	6,412	4,191	2,221
Total	\$ 63,154	\$ 40,842	\$ 22,312	\$ 62,282	\$ 38,283	\$ 23,999

5. Bank Indebtedness

The Company maintains a \$15.0 million standby operating line of credit with a Canadian bank, which bears interest at the bank's prime lending rate (December 31, 2005 – 5.00%). This facility is secured by a general assignment of accounts receivable, inventories and demand debentures creating a fixed and floating charge over all Company assets. At December 31, 2005, no balances were outstanding under this operating line of credit.

6. Promissory Note

The promissory note, due on demand in the amount of \$675,000 (2004 – \$675,000), is secured by a letter of credit and bears interest at the bank prime rate plus $\frac{1}{4}\%$.

7. Share Capital and Contributed Surplus

Authorized

100,000,000 – Common shares fully participating and without par value (“Common shares”).

Authorized preference shares were cancelled in 2005. There were no preference shares issued and outstanding at the time of the cancellation.

Issued and fully paid capital (tabular dollar amounts in thousands)

	2005		2004	
	Shares	\$	Shares	\$
Common shares				
Opening balance	10,827,600	\$17,756	10,796,900	\$17,619
Issued for cash	–	–	57,500	182
Repurchased and cancelled	–	–	(26,800)	(45)
Closing balance	<u>10,827,600</u>	<u>17,756</u>	<u>10,827,600</u>	<u>17,756</u>
Contributed Surplus				
Opening balance		942		1,178
Excess of cost over book value on repurchased and cancelled shares		–		(236)
Closing balance		<u>942</u>		<u>942</u>
Total		<u>\$18,698</u>		<u>\$18,698</u>

Employee share purchase plan

The Company has an employee share purchase plan (“ESPP”) enabling all permanent full- and part-time employees to acquire Common shares through payroll deductions with financial assistance provided by the Company. On September 27, 2005, the Company amended its ESPP whereby the 400,000 Company treasury shares reserved for issuance under the ESPP were cancelled. It was resolved that Company shares purchased in the future under the ESPP would continue to be either through a member firm of the Toronto Stock Exchange or from such other source as may be determined by the board of directors. Eligible employees may contribute monthly an amount, which shall not exceed 7% of salary, and the Company has agreed to contribute 35% of the amount contributed by each eligible employee. All funds and equity shares held by the administrator pursuant to the ESPP are held for the account of the individual eligible employee.

Normal course issuer bid transactions

During 2004, the Company maintained a normal course issuer bid (“NCIB”) allowing shares to be repurchased for cancellation. In 2004, under the NCIB the Company purchased 26,800 shares for cancellation at an average price of \$10.48 per share for a total consideration of \$281,000. The excess purchase cost over book value of approximately \$236,000 was applied to contributed surplus. There were no shares repurchased under the NCIB in 2005. The Company did not renew the NCIB when it expired on March 23, 2005.

Stock option transactions

The Company had a stock option plan that provided options to purchase Common shares of the Company for its employees, officers and directors. The options granted pursuant to this plan were exercisable at a price equal to or greater than the fair market value of the Common shares at the time the options were granted. During 2004, the remaining 57,500 stock options that were originally granted under this plan were exercised at a weighted average price of \$3.16. No share options were issued in 2005 and there were none outstanding at December 31, 2005.

Shares reserved for future issuance

On September 27, 2005, the Company cancelled the remaining shares reserved for issuance (400,000 Common shares) under the ESPP. The Company has no shares reserved for future issuance in Treasury.

8. Post-employment Benefits (tabular dollar amounts in thousands)

The Company maintains a defined contribution (money purchase) pension plan for substantially all of its salaried employees. Pension costs charged to earnings for the defined contribution plan were \$296,000 in 2005 (2004 – \$287,000).

Under the terms of certain employment agreements with selected senior officers, the Company provides for compensation to be paid to the individuals at the date they cease their employment. These obligations, including any past service costs resulting from amendment to the compensation arrangements, are accrued on a straight-line basis over the expected average remaining service period of the employee. Details of the total post-employment benefit expense charged to earnings and the related long-term obligation for accrued benefits are as follows:

	2005	2004
Compensation expense	\$ 246	\$ 113
Accrued benefit obligation at December 31	430	184

At December 31, 2005, the estimated amount payable on settlement of this benefit obligation was \$466,300 (2004 – \$356,000).

9. Income Taxes (tabular dollar amounts in thousands)

Differences between the statutory income tax rate applicable to the Company and the Company's effective income tax rate applied to net earnings consist of the following:

	2005		2004	
Income tax provision at the combined basic Canadian federal and provincial rate	\$ 3,501	34.9 %	\$ 3,179	35.5%
Adjustment in income tax rate resulting from:				
Non-deductible expenses	37	0.4	56	0.6
Other	(36)	(0.4)	(137)	(1.5)
Effective income tax provision	\$ 3,502	34.9%	\$ 3,098	34.6%

The income tax provision consists of the following:

Current tax expense	\$ 3,576	\$ 2,749
Future income tax expense	(74)	349
Total income tax provision	\$ 3,502	\$ 3,098

Significant components of future income tax assets and liabilities include:

	2005	2004
Accrued liabilities	\$ 385	\$ 368
Losses and other deductions	20	27
Future income tax assets	405	395
Property, plant and equipment	(1,869)	(1,923)
Other	(9)	(19)
Future income tax liabilities	(1,878)	(1,942)
Net future income tax liability	\$ (1,473)	\$ (1,547)

The net future income tax liability is reported as follows:

	2005	2004
Future income tax benefit (current)	\$ 262	\$ 281
Future income tax liabilities	(1,735)	(1,828)
Net future income tax liability	\$ (1,473)	\$ (1,547)

10. Changes in Non-cash Working Capital Items (in thousands of dollars)

	2005	2004
Accounts receivable	\$ 326	\$ (1,935)
Inventories	1,215	(1,275)
Prepaid expenses	(46)	(53)
Accounts payable and accrued liabilities	1,385	569
Income taxes	820	(547)
Total	\$ 3,700	\$ (3,241)

11. Commitments, Guarantees and Contingencies

(a) The Company has entered into operating lease and rental commitments for certain processing and office equipment and office space for the next five years as follows:

2006	\$	444,425
2007		398,782
2008		150,844
2009		83,781
2010		55,043

(b) Under the terms of a processing and filling systems agreement, the Company is committed to purchasing a minimum number of units of beverage packaging material annually until 2009, or it would be liable for an annual penalty of \$775,000. Management estimates that penalties would only be payable in the event of a dramatic decline in market demand.

(c) In the normal course of business the Company enters into commitments to purchase certain minimum quantities of energy and raw materials including fruit juice purées and concentrates, primarily in US dollars. At December 31, 2005, the Company had commitments to purchase approximately \$3.7 million of these materials within the next year (2004 – \$4.1 million).

(d) In January 2005, the Consumers' Association of Canada filed a class action lawsuit against a number of parties in the beverage industry, including Sun-Rype, other manufacturers, retailers and Encorp Pacific (Canada), the administrator of the beverage container deposit and recycling fee system in British Columbia ("BC"). The claim alleges the illegal use of consumer deposits collected under BC's beverage container stewardship program regulations. In January 2006, the defendants, including Sun-Rype, filed an application to strike the claim summarily as lacking sufficient merit to warrant certification of the class. Due to the early stages of this claim, the amount and likelihood of loss, if any, is not determinable. As a result, no provision for any loss has been recorded in these financial statements.

12. Earnings per Share

Basic earnings per share are computed using the weighted average number of Common shares outstanding during the period. The weighted average number of Common shares outstanding in 2005, on a non-diluted basis, was 10,827,600 (2004 – 10,817,203). Diluted earnings per share are calculated using the treasury stock method with the effect that the diluted average number of Common shares outstanding in 2005 was 10,827,600 shares (2004 – 10,834,835 shares).

13. Financial Instruments and Credit Risk

The Company's financial instruments include accounts receivable, a promissory note payable, accounts payable and long-term obligations for which the carrying values approximate fair values. Other instruments are instruments that may be settled by the delivery of non-financial assets, such as a commodity futures contract.

Credit risk is the risk of loss from non-performance of suppliers, customers or financial counter parties to a contract. The Company maintains credit policies that include a review of a counter party's financial condition, measurement of credit exposure and monitoring of concentration of exposure to any one customer or counter party. The Company's customers consist mainly of grocery stores, mass merchandisers and club stores across Canada. The Company's ten largest customers comprise approximately 84% of sales activity (2004 – 83%). At December 31, 2005, 87% (2004 – 84%) of accounts receivable were attributable to these customers.

The Company is exposed to foreign currency risk as certain of its raw material inputs are purchased in US dollars. In 2006, these purchases are estimated to be approximately US\$29 million (2005 – US\$26.6 million).

The Company periodically enters into foreign exchange forward purchase contracts to manage foreign exchange risk associated with anticipated future purchases and contractual commitments denominated in foreign currencies. As at December 31, 2005 and 2004, the Company had no financial or other instruments outstanding that related to hedging or forward purchase foreign exchange contracts.

14. Segmented Information (in millions of dollars)

The Company operates in the food and beverage industry in Canada and has only one industry segment.

Details of net sales by significant product lines are as follows:

	2005	2004
Beverage	\$ 90.7	\$ 83.8
Food	34.7	31.4
Total	\$ 125.4	\$ 115.2

15. Comparative Figures

Certain of the comparative figures have been reclassified in the financial statements to conform to the classifications used in 2005.

16. Related Parties

In the normal course of business, the Company sells beverage and food products to a major food retailer in western Canada that is controlled by a major shareholder that holds approximately 30% of the outstanding Common shares of Sun-Rype Products Ltd. Sales to this retailer are less than 10% of the Company's total sales.

17. Subsequent Events

On February 15, 2006, the Company declared a quarterly dividend of \$0.03 per Common share, for a total of approximately \$325,000, payable March 15, 2006, to shareholders of record at the close of business on February 28, 2006.

On March 2, 2006, the Company declared a special dividend of \$1.50 per Common share, for a total of approximately \$16 million, payable March 31, 2006, to shareholders of record at the close of business on March 15, 2006.

The Company has committed to purchase US\$3.6 million using foreign exchange forward contracts and to use call and put options to purchase an additional US\$18 million at market rates with a maximum price of \$1.17 and a minimum price of \$1.1056.