

2010 ANNUAL REPORT

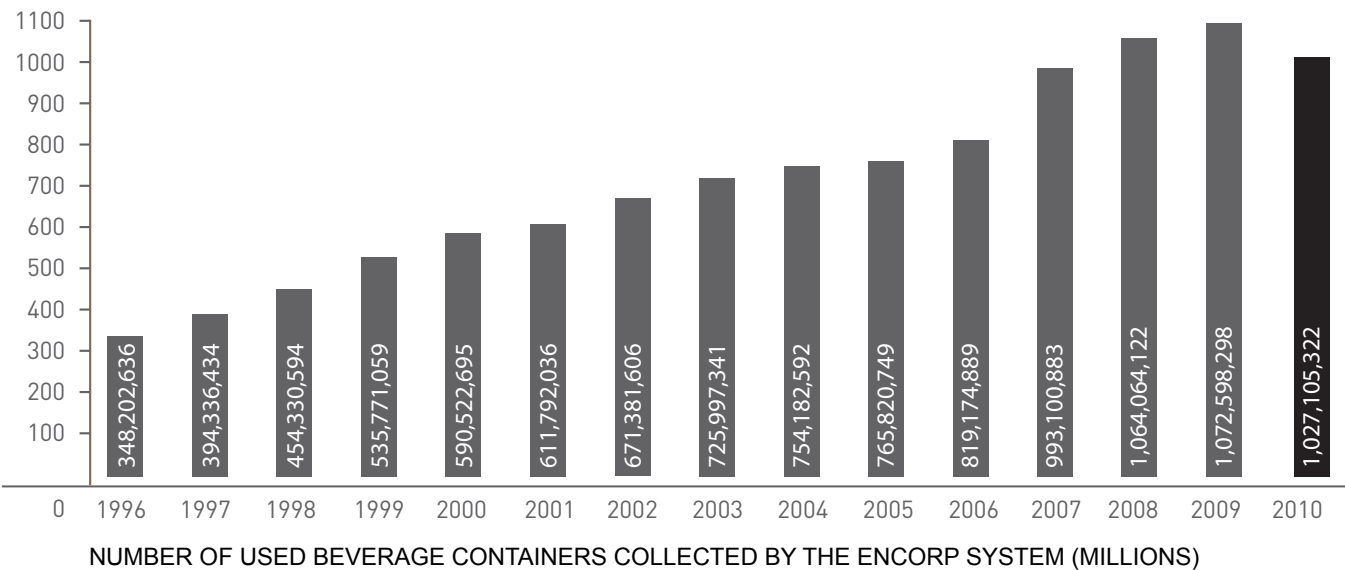
ENCORP PACIFIC (CANADA)

Recycling by the numbers

In 2010, Encorp Pacific (Canada) recovered over one billion containers and continued to demonstrate why we are one of the most effective industry product stewardship corporations in North America.

To minimize the impact on the environment, this annual report is available in digital format only. The charts and content, indicated by the printable PDF symbol, can be printed using the free Adobe Acrobat Reader.

Number of used beverage containers collected



Returns 2010

Container Type	2010 Containers Sold	2009 Containers Sold	2010 Containers Purchased	2009 Containers Purchased	2010 Recovery Rate YTD	2009 Recovery Rate YTD	2010 Weight Recycled (t)	2009 Weight Recycled (t)
Aluminum	437,430,646	451,522,297	365,461,828	377,496,483	83.5%	83.6%	5,131	5,315
Plastics ≤ 1L	369,292,651	406,178,868	281,903,999	297,305,762	76.3%	73.2%	7,035	7,851
Plastic > 1L	68,772,192	70,935,808	60,396,885	62,539,276	87.8%	88.2%	4,460	4,294
Plastic Liquor ≤ 1L	11,512,727	12,103,318	9,238,612	8,848,662	80.2%	73.1%	421	378
Plastic Liquor > 1L	3,812,338	3,754,802	3,659,399	3,624,991	96.0%	96.5%	266	238
Total Plastic	453,389,908	492,972,796	355,198,895	372,318,691	78.3%	75.5%	12,182	12,761
Glass ≤ 1L	35,919,952	41,812,232	28,364,800	32,152,718	79.0%	76.9%	8,602	10,405
Glass > 1L	160,136	152,896	164,823	155,161	102.9%	101.5%	163	154
Glass NRBC ≤ 1L	108,792,080	120,205,069	107,737,117	118,070,620	99.0%	98.2%	25,832	29,799
Glass NRBC > 1L	575,957	635,749	474,878	523,069	82.5%	82.3%	256	307
Glass W&S ≤ 1L	72,838,434	70,731,110	67,212,566	66,139,718	92.3%	93.5%	35,195	27,494
Glass W&S > 1L	11,650,801	11,925,416	10,596,539	10,855,618	91.0%	91.0%	7,812	8,028
Total Glass	229,937,359	245,462,472	214,550,723	227,896,904	93.3%	92.8%	77,861	76,186
Bi-Metal ≤ 1L	3,286,487	4,465,109	2,289,901	2,904,822	69.7%	65.1%	107	106
Bi-Metal > 1L	949,211	1,039,836	500,264	629,387	52.7%	60.5%	72	72
Total Other Metal	4,235,698	5,504,945	2,790,165	3,534,209	65.9%	64.2%	179	177
Pouches	13,424,429	13,114,513	6,061,228	6,171,672	45.2%	47.1%	36	35
Drink Box ≤ 500ML	96,107,029	97,853,139	52,916,025	54,177,529	55.1%	55.4%	559	624
Drink Box 501 ML - 1L	25,726,235	26,567,649	18,929,689	19,053,178	73.6%	71.7%	795	634
Gable Top ≤ 500ML	1,549,829	2,550,585	408,024	621,789	26.3%	24.4%	6	9
Gable Top 501 ML - 1L	928,206	887,878	270,642	334,890	29.2%	37.7%	15	19
Gable Top > 1L	12,351,720	14,373,452	9,442,391	9,985,108	76.4%	69.5%	756	698
Total Polycoat	136,663,018	142,232,703	81,966,771	84,172,494	60.0%	59.2%	2,131	1,984
Bag-in-Box - Alcohol	2,425,280	2,323,617	1,075,712	1,007,845	44.4%	43.4%	248	230
TOTALS	1,277,506,339	1,353,133,342	1,027,105,322	1,072,598,298	80.4%	79.3%	97,767	96,689

Note: Includes alcohol containers effective April 1, 2007



Message from the Chair

Without a doubt, 2010 was one of the most significant years in the history of the province of British Columbia. The pride and pageantry that accompanied the Winter Olympics and the dramatic changes that took place on the political front dominated news headlines and, for a short time at least, redefined the province's economy.

Nevertheless, the underlying state of that economy was unchanged. By late in the year it was apparent that we were still feeling the after-effects of the worldwide recession that gripped most consumer product businesses. In our case, despite the economic boost provided by the Olympic Games and strong performances in some sectors, beverage sales still lagged behind pre-recession levels, which in turn affected both gross recovery numbers and our overall financial position.

In 2009 we took bold measures to strengthen our cash flow position in the face of lower revenues and commodity prices. In 2010, we focused on the organization's longer term financial health to ensure it would be better positioned to deal with the ups and downs of a recovering but still sensitive economy.

Accordingly, the Board of Directors established more stringent criteria for replenishing and maintaining operational reserves at appropriate levels over the next three years. After a detailed and careful analysis, this required a further adjustment to Container Recycling Fees. The Board believes this direction will provide greater stability and predictability for our stakeholders. We are grateful to our brand owners, retailers and other partners who supported the adjustments, which will enable us to continue to provide outstanding stewardship services for British Columbians well into the future.

What that future looks like is a major focus for the Board in 2011. As noted in last year's Annual Report, 'Extended Producer Responsibility' is now a mainstream component of the economic equation, especially in British Columbia where it is enshrined in the 2004 Recycling Regulation. The practical impact of this commitment is that new products are being added to the regulation every year, and with them comes the expectation that producers will work in a coordinated fashion to discharge their various responsibilities.

This expectation puts tremendous pressure upon the existing collection infrastructure, within which Encorp's Return-It™ Depots, along with its administrative and logistics capabilities, are primary assets. In the year to come, Encorp and its partners will be thinking carefully about their role in future stewardship applications, whether as a service provider, licensor or designated stewardship agency.

Our primary obligation is to the brand owners and depot operators who are the engine of the beverage container stewardship program in British Columbia. But as other products come on stream, other stakeholders are taking an active interest in Encorp's operations as potential solutions to a wider array of stewardship commitments. As a Board of Directors, determining what is an appropriate role for Encorp within this environment is a critical question.

It is also a reflection of our success. Consumer research conducted in November and December 2010 revealed that 94% of British Columbians who visited Return-It Depots recently were satisfied with their experiences. This is a very solid level of customer satisfaction and it is a credit to the 171 depot operators throughout the province, as well as Encorp Pacific staff, who work together to deliver one of the most respected stewardship programs in North America.

Encorp continues to benefit from outstanding leadership at the Board level, as well as from the excellence of our staff. We are entering an exciting yet challenging period of expanded stewardship in British Columbia, which could have a significant impact on our business operations in the future. It is reassuring to know that we have so many outstanding people with us on this journey.

Dan Wong
Board Chair



Message from the Chief Executive Officer

The beverage industry in British Columbia continues to face challenging times. Sales in the province have not yet rebounded from the declines experienced in 2009.

Manufacturers, and Encorp as their stewardship agency, have adapted to new pressures. Throughout, we have remained focused on our responsibility to maintain financial stability for the many individuals and organizations that rely upon us.

In 2010 our three key achievements were:

1. Strengthening our financial position
2. Maintaining high recovery levels
3. Increasing customer recognition of the Return-It™ depots

Financial Position is Stronger

Our anticipated reserve position is based on an estimate of cash flow requirements. The estimate of \$15 million at the end of 2011 is a conservative position equivalent to four to six weeks of the cash payments that must be paid out by Encorp to sustain liquidity in the beverage collection system for British Columbia. Accordingly, here is a chronology of our reserve position from January 2010 through the end of December 2011:

January 1, 2010: reserve account deficit of \$1,458,000

December 31, 2010: reserve account surplus of \$7,628,000

December 31, 2011: target surplus of \$15,000,000

Recovery Rates Improve Again

Here are the results:

2010: 80.4%

2009: 79.3%

2008: 77.1%

We achieved this record rate in 2010 in the face of a decline in beverage sales into the province, resulting in fewer containers available for collection. Our recovery efficiency improved as the decline in the actual number of containers collected was less than the decline in containers available.

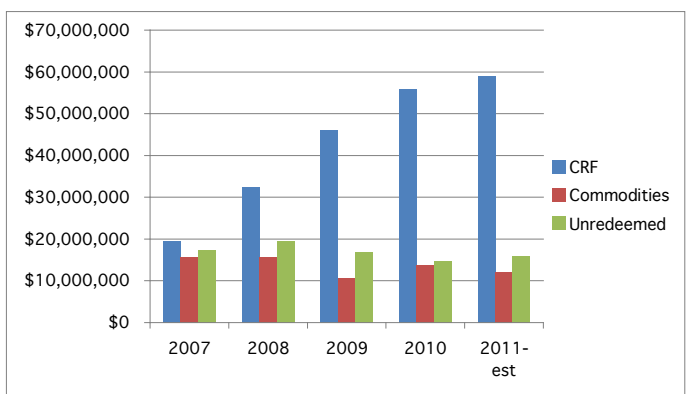
Recognition of the Return-It™ Depots at Record Levels

Here are the results from our annual Ipsos-Reid consumer survey of 1,500 residents:

- 94% are satisfied with their experience at a depot
- 70% have a depot close to home

Financial Stability

Our 2008 and 2009 Annual Reports described the impact on our revenues created by the worldwide recession that started in the fall of 2008. During this same period, our recovery rate continued to improve with a predictable decline in the amount of unredeemed deposits available. As a direct consequence, financing patterns have shifted from, in 2007, an equal balance between commodity revenues, unredeemed deposits and container recycling fees (CRF) to, in subsequent years, a much greater reliance on CRFs.



This pattern will continue for the foreseeable future. CRF revenue has become fundamental to the financial stability required to sustain a high performing deposit refund beverage container recovery program.

Encorp has had in place a CRF charge to its brand owners since 1996. Brand owners determine whether to charge the retailers separately for the CRF and indicate that at the time of sale, or whether to include the CRF in the total product price. Similarly, it is up to each individual retailer whether to charge the CRF separately and indicate that at the time of sale to the consumer.

Since about 2001, Encorp has engaged in a public education program to inform consumers of the rationale for the CRF and to clearly establish that it was not a government tax. This publicity, coupled with the small size of the CRF (often only 1 to 3 cents per container) has alleviated most consumer concerns. Since 2008, we have made changes to CRF rates four times. While some rates have been reduced, most have been increased for reasons set out previously. Encorp's policy is to review and establish CRF rates on an annual basis.

In closing, I want to acknowledge the leadership demonstrated by our Board of Directors as they made the difficult choices on the road to strengthening our financial position while still supporting the investments in public education, research and development that are fundamental to maintaining high standards of stewardship. This dedication has allowed us to provide consistent support to our many business partners who either operate Return-It™ Depots or are transportation/processing service providers.

Finally, I am proud of the everyday effort of our dedicated staff. Leading Encorp is a rewarding experience made even more enjoyable because of the spirit and commitment of my colleagues.

Sincerely,

Neil Hastie
President and CEO



What drives us

Vision

Encorp Pacific (Canada) will be a leader in British Columbia in the design and delivery of a highly effective stewardship program across a targeted range of end-of-life consumer products and packaging. It is all organized on the basis of industry self-management and lowest possible cost, consistent with achieving high performance for our industry partners, their consumers, the regulator and other stakeholder groups.

Mandate

Encorp Pacific (Canada) will be the leading stewardship agency in British Columbia with a continuous focus on beverage containers as our core business.

Role

Our role as a stewardship corporation is to facilitate brand owners' owner/producer compliance with the Recycling Regulation by organizing recycling programs through collection and transportation to the final recycling into a variety of end-of-life packaging and products. The success of our recycling programs will be judged by the extent to which our stakeholder universe sees Encorp acting in the public good while attending to the private interests of the producers with whom we partner.

Our stakeholder universe

Producers

Interests - low cost, consistent compliance and freedom of packaging choice

Consumers

Interests - low cost, no financial gain for producers, convenient no-charge access to collection facilities, and confidence that their product returns are being recycled in an environmentally sensitive manner

Governments

Interests - no cost to either provincial or local government, in compliance with regulation, financial transparency, minimal lobbying with elected officials, and industry self-managed

Advocacy Groups

Interests - no financial gain for producers, no cost to either provincial or local governments, high environment standards, financial transparency and commitment to continuous improvement

“It’s great to be part of an organization committed to such a high degree of transparency, accountability and corporate governance”.

Neil Antymis, Board Member



Return-It Depots achieve all-time highs

Customer Satisfaction & 5 Star Certification

It's not a coincidence that we have record high recognition and record high recovery rates. In fact the dynamic is cause (consumer convenience) and effect (recovery).

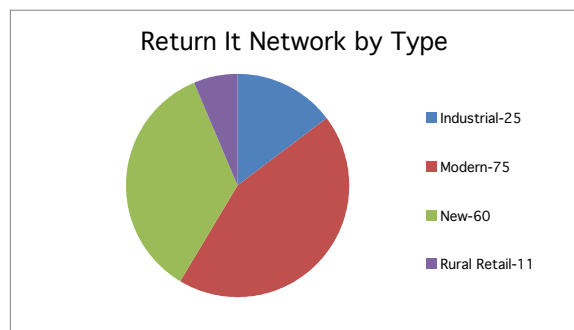
Today, this network of privately owned Return-It Depots operating under license from Encorp has become the collection network backbone for many recycling programs. Stewardship programs for domestic beer containers, residual household hazardous waste and end-of-life electronics/electrical equipment all utilize our network. Driven by the depot owners' increased commitment to customer service, the depot has become a one-stop drop for regulated consumer products and packaging.

This has not always been the case. In the 1990s most depots were located in industrial areas and were more similar to warehouses than consumer facilities. The emphasis was on storage and shipping. Consumer experience was not the first priority.

Change started in 1998:

- Return-It Depot concept created as a reverse retail operation located in commercial areas close to where consumers did their shopping
- Encorp offered interest-free loans to encourage owners to invest
- In the next five years the concept rolled out to 30 new depots
- Over the next 10 years more than 75 owners modernized their locations

Here is an overview of the 171 depots in the network today:



Impressed by the significant energy and investment made by depot owners over the previous 10 years, in 2008 Encorp created a new certification program called 5 STAR. The customer service and modern building standards exceeded those of the original concept developed in 1998. To date 17 depots have received 5 STAR certification and 11 others have received 3 STAR certification.

Here are some of the business metrics for the Return-It network:

1. Median volume: 5.2 million Encorp + 1.5 million beer = 6.7 million total
2. Depots share of all collected containers: 90% (10% go to retailers)
3. Depots share of alcohol containers: 84% (16% goes to government liquor stores)
4. Depots collecting electronics: 68
5. Depots collecting paint: 50
6. New depot owners in last 5 years: 51 (includes 5 opening new depots)
7. Depots closed in last 5 years: 1
8. Total estimated employees: 700 full-time equivalents
9. Total Encorp fee for service payments to depots: \$51.3 million/year

Success stories such as this bring challenges. Increasingly, new stewardship agencies handling other regulated consumer products have chosen to bypass Encorp and enter into collection contracts directly with the depots. We have permitted this practice to date, provided that overall standards of service for beverage container collection are not compromised. We will need to re-examine this dynamic and move to a more coordinated regime in the future.



There's a story in every depot.

D'arcy Hipwell **(Bottle Depot, Victoria), owner**

After graduating from BCIT, D'arcy Hipwell spent nine years in management with a Coca-Cola bottler. In 1988 he began his recycling career. "I managed a multi-material recycling company in Victoria that processed material from the initial blue box program. We were also an agent for Brewers Distributors, collecting beer containers on behalf of the brewers." Encorp's Bottle Depot operator in Victoria and Saanich since 1995, D'arcy oversees three Return-It Depots. The newest one opened in downtown Victoria in November, 2010. The 9,000 sq. ft. building sits on an acre of land and offers an extremely high level of customer service with multiple street access, five shipping/receiving truck bays, 30 ten-foot parking stalls, multiple customer tills and Encorp's Big Bag System. Fittingly for a man who now makes his living in recycling, one of his depots is in the former Coca-Cola facility he worked at in 1979.

Andy Suh **(Lougheed Return-It Depot), owner**

During the 10 years he was employed as an art director, Andy never forgot his time working in a Return-It Depot in Aldergrove in the late 90s. "Since then I've always wanted to operate my own depot," says the owner of Lougheed Return-It Depot. "I liked the idea of turning waste into useful products." As you might expect, his Depot is something special and was awarded the coveted 5 Star certification. What distinguishes a 5 Star Return-It Depot? In addition to a clean, bright interior and a welcoming ambience, customers will find finished floors, stainless steel sorting tables, touchless tap & hand wash sink and air dryer. Andy is also putting his art director talents to good use. "With my communication skills I can encourage customers and communities to support the idea of saving the environment. I believe it is very important for a business owner to take pride in what he is doing." And Andy certainly does.



Regional weights and per capita container returns

Returns by Region Summary. Alcohol and Non-Alcohol containers: January – December 2010

Region	Region Name		Aluminum	Plastic	Glass	Polycoat	Other	Total	Jan.-Dec. 2010 Per Capita	Jan.-Dec. 2009 Per Capita
110	Bulkley / Nechako	Units(000)	4,670	3,292	1,203	723	71	9,959	254.2	268.8
110	Bulkley / Nechako	Tonnes	65.6	107.6	445.6	15.9	2.9	637.7	16.3 kg	17.1 kg
120	Cariboo	Units(000)	7,565	5,995	2,519	1,272	136	17,488	267.1	275.4
120	Cariboo	Tonnes	106.2	198.1	866.1	26.5	7.1	1,204.1	18.4 kg	18.8 kg
130	Central Coast	Units(000)	287	146	92	49	9	583	183.6	215.7
130	Central Coast	Tonnes	4.0	5.3	37.5	1.1	0.2	48.2	15.2 kg	17.2 kg
140	Fraser - Fort George	Units(000)	11,574	10,011	4,499	2,129	249	28,462	294.7	307.1
140	Fraser - Fort George	Tonnes	162.5	328.0	1,506.5	48.2	9.4	2,054.6	21.3 kg	21.8 kg
150	Kitimat - Stikine	Units(000)	4,682	3,494	1,039	754	96	10,064	250.0	258.7
150	Kitimat - Stikine	Tonnes	65.7	114.5	389.5	17.2	3.5	590.4	14.7 kg	14.8 kg
160	Skeena - Queen Charlotte	Units(000)	2,889	1,983	731	398	66	6,067	311.2	314.7
160	Skeena - Queen Charlotte	Tonnes	40.6	66.0	272.2	8.9	2.2	389.8	20.0 kg	20.0 kg
170	Northern Rockies	Units(000)	896	985	260	100	1	2,242	361.0	303.5
170	Northern Rockies	Tonnes	12.6	27.9	82.2	2.5	0.1	125.3	20.2 kg	18.6 kg
180	Peace River	Units(000)	6,952	6,267	2,389	1,072	143	16,822	265.5	273.9
180	Peace River	Tonnes	97.6	199.4	792.6	25.8	3.6	1,119.1	17.7 kg	17.9 kg
210	Capital Regional District	Units(000)	29,537	27,976	22,507	5,708	661	86,389	232.0	240.2
210	Capital Regional District	Tonnes	414.7	1,003.7	8,321.6	181.8	43.1	9,964.9	26.8 kg	25.9 kg
220	Cowichan Valley	Units(000)	9,292	7,221	3,939	1,564	239	22,256	268.6	285.9
220	Cowichan Valley	Tonnes	130.5	247.6	1,486.1	40.7	11.3	1,916.1	23.1 kg	23.2 kg
230	Alberni / Clayoquot	Units(000)	4,133	3,251	1,648	549	102	9,682	306.1	318.2
230	Alberni / Clayoquot	Tonnes	58.0	108.6	602.9	14.7	3.5	787.8	24.9 kg	25.0 kg
240	Comox / Strathcona	Units(000)	9,819	7,801	4,698	1,729	203	24,250	222.4	235.4
240	Comox / Strathcona	Tonnes	137.9	276.0	1,778.3	47.3	13.6	2,253.1	20.7 kg	20.7 kg
250	Mount Waddington	Units(000)	1,546	976	475	200	9	3,205	265.9	277.1
250	Mount Waddington	Tonnes	21.7	33.6	185.5	4.6	1.3	246.7	20.5 kg	19.6 kg
260	Nanaimo	Units(000)	12,383	11,494	8,115	2,165	295	34,453	230.2	240.7
260	Nanaimo	Tonnes	173.9	401.0	2,911.1	65.8	22.4	3,574.2	23.9 kg	22.4 kg
310	Greater Vancouver	Units(000)	154,877	167,889	104,798	42,485	5,458	475,508	200.2	215.0
310	Greater Vancouver	Tonnes	2,174.5	5,767.2	38,111.5	1,104.8	212.8	47,370.8	19.9 kg	20.2 kg
320	Fraser Valley	Units(000)	27,865	24,857	11,105	6,354	843	71,024	249.2	264.6
320	Fraser Valley	Tonnes	391.2	863.2	3,898.2	145.1	30.0	5,327.8	18.7 kg	19.5 kg
330	Powell River	Units(000)	2,024	1,467	861	308	41	4,701	229.8	242.9
330	Powell River	Tonnes	28.4	52.0	330.3	8.4	3.6	422.8	20.7 kg	20.7 kg
340	Squamish - Lillooet	Units(000)	3,546	3,905	3,997	655	50	12,154	301.2	322.0
340	Squamish - Lillooet	Tonnes	49.8	129.2	1,442.6	18.0	2.4	1,642.0	40.7 kg	39.4 kg
350	Sunshine Coast	Units(000)	2,382	2,015	1,868	447	39	6,752	225.2	241.7
350	Sunshine Coast	Tonnes	33.4	74.1	731.2	14.0	5.3	858.1	28.6 kg	28.3 kg
410	Central Okanagan	Units(000)	16,130	16,152	10,318	3,872	266	46,737	252.0	264.5
410	Central Okanagan	Tonnes	226.5	550.6	3,802.3	93.5	20.2	4,693.1	25.3 kg	25.0 kg
420	North Okanagan	Units(000)	9,811	9,878	4,562	2,149	168	26,569	319.6	334.0
420	North Okanagan	Tonnes	137.7	346.5	1,649.0	59.3	11.6	2,204.2	26.5 kg	26.4 kg
430	Okanagan - Similkameen	Units(000)	7,923	7,517	4,722	1,394	146	21,702	262.2	275.0
430	Okanagan - Similkameen	Tonnes	111.2	259.0	1,810.9	36.2	12.2	2,229.5	26.9 kg	25.7 kg
440	Columbia Shuswap	Units(000)	5,440	5,042	3,283	906	86	14,757	274.9	297.7
440	Columbia Shuswap	Tonnes	76.4	166.8	1,145.0	23.3	6.7	1,418.2	26.4 kg	28.8 kg
450	Thompson - Nicola	Units(000)	14,687	13,645	7,168	2,612	322	38,434	292.0	308.0
450	Thompson - Nicola	Tonnes	206.2	447.3	2,492.8	63.7	15.9	3,225.9	24.5 kg	25.1 kg
510	Central Kootenay	Units(000)	5,159	3,765	3,280	909	68	13,181	218.3	229.9
510	Central Kootenay	Tonnes	72.4	134.4	1,145.3	23.9	6.3	1,382.4	22.9 kg	23.3 kg
520	East Kootenay	Units(000)	6,457	5,817	3,246	934	102	16,557	274.7	301.2
520	East Kootenay	Tonnes	90.7	193.5	1,165.0	25.7	6.4	1,481.2	24.6 kg	25.2 kg
530	Kootenay Boundary	Units(000)	2,936	2,358	1,229	528	58	7,108	222.9	238.5
530	Kootenay Boundary	Tonnes	41.2	81.1	459.0	14.0	3.9	599.2	18.8 kg	18.8 kg
Total Units		Units(000)	365,462	355,199	214,551	81,967	9,927	1,027,105	226.7	240.8
Total Kg		Tonnes	5,131.1	12,182.4	77,860.9	2,131.0	461.7	97,767.2	21.6 kg	21.7 kg



Annual Report 2010

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Provincial Statistics

Total Units (000)	1,027,105
Total Tonnes	97,767.2
Per capita totals	226.7



Keeping things moving

Encorp contracts with 26 transporters who move material into 12 central processors. The processors compact the material into bales and forward it to many different recyclable material end markets.

Encorp continues to have a solid transportation network of contracted companies across the province, but there have been some added pressures in 2010. Rising oil prices have increased operating expenses for Encorp's base of 26 transporters.

Many transporters have seen some benefits from new cleaner burning, low sulfur emission vehicles, but this has also led to higher fuel consumption patterns. In some cases, transporters have started to upgrade their fleet with older trucks or retrofitting older equipment with newer fuel emissions technologies.

We have also seen increased partnerships between transporters and depots on pallet or stacking equipment like forklifts. This has led to fuller trucks and increased quantities leaving the depots with fewer transportation visits.

Where depots to processor distances are significant, we continue to evaluate other fuel efficiency options such as the use of hybrid vehicles and compaction of aluminum and plastic.



Recycling is worth it

Aluminum

Aluminum is the most valuable commodity collected by Encorp. Baled aluminum cans are sent to a major re-melt facility and turned back into sheet stock for new cans.

Plastic

The two key plastic resins collected by Encorp, PET and HDPE, are sent to separate facilities to be cleaned and pelletized for sale into the open market. End uses for these plastics include new containers, strapping materials and fibres. Encorp has signed a multi-year contract with Merlin Plastics to ensure long-term markets for these commodities.

Glass

United Concrete, Encorp's contracted glass processor has continued to find end markets for glass in Airdrie, Alberta and Seattle, Washington. Long-term arrangements for utilizing glass collected on Vancouver Island have been made with Emterra, formally known as International Paper Industries. End uses for recycled glass include new bottles, pink insulation, sandblasting materials and construction aggregates.

Polycoat

Drink boxes and gable top cartons continue to be sold into markets primarily in Asia. The high quality paper fibre that comprises the bulk of these containers is recovered and used to make cardboard boxes and tissue paper.

“Working closely with Encorp allows us to maximize the value and recovery of plastics such as PET, HDPE, PP, as well as other miscellaneous packaging product.”

Tony Moucachen, Merlin Plastics



Quality is built into the system

In 2010, Quality Assurance (QA) underwent significant change after a new QA Manager joined Encorp. The space in the Annacis Island QA facility was increased and a high speed sorting and counting Anker Andersen Machine was purchased.

Encorp's system was also changed with the addition of the Orwak in-depot compactor and Big Bag. In the initial phase, 14 Orwak machines were installed in depots. The Orwak machine compacts aluminum and plastic into individual cubes which are palletized and shipped. Big Bags provide high efficiency and convenience for large volume depots shipping aluminum and plastic. The Big Bag, which contains 2,880 aluminum cans or 1,650 plastic bottles under 1 litre, was rolled out in five depots. Even with these changes, the Depot audit variance at 0.56% continues to be low.

The installation of the Anker Andersen high speed sorting and counting machine improved the automation of QA auditing. This machine allows QA to increase the number and precision of audits within our already highly successful system.



Recyclers to the core

Encorp was established in 1994 to recover and recycle deposit-bearing beverage containers. This remains Encorp's core business interest.

The flexibility of the Industry Product Stewardship model, however, permits the addition of other product recycling programs, providing they meet key business case requirements:

- Additional services should complement and not interfere with Encorp's core business.
- Each contract must provide some benefit to existing brand owners – typically through the sharing of overhead costs.
- Each additional program must be completely self financing.
- Under service provider contracts, Encorp does not assume product stewardship agency responsibilities as defined under provincial legislation.

In 2007, Encorp undertook two service provider contracts that met the above criteria: RETURN-IT ELECTRONICS and RETURN-IT MILK

RETURN-IT ELECTRONICS

Encorp responded to an invitation for Expressions of Interest issued by the electronics industry to design and operate a collection system for end-of-life electronics. The proposal met our business case requirements and Encorp's opinion was that the depot network would end up being involved in the implementation of any such program and that it was to Encorp's advantage to ensure that it was integrated into existing depot operations as smoothly as possible. The program is operated by Encorp under contract from the Electronics Stewardship Association of BC (ESABC), which is the product stewardship agency for electronics. ESABC produces a public annual report on the program that can be viewed at www.esabc.ca

Electronic Stewardship Association of BC (ESABC)

Under a contract with ESABC, Encorp has operational management of a system that collects, and transports to recyclers, End-of-Life Electronics (EOL) covered by the provincial regulation. At the end of 2010, there were 111 permanent sites throughout the province to which consumers and businesses could return designated EOL electronics at no charge; up from 99 in 2009.

RETURN-IT MILK

Even though milk and milk substitute containers are exempt from the deposit refund regulation, Encorp assisted the BC Dairy Council (BCDC) with pilot projects designed to test ways of recovering milk containers from consumers for recycling. Based on the tests, the Dairy Council decided that a depot-based consumer return system was the most appropriate format and approached Encorp to establish a system. Since Encorp depots already accept beverage containers, adding milk and soy containers was a natural. The contract with BCDC also met all the criteria detailed in the key business case requirements listed on the left column.

BC Dairy Council (BCDC)

The contract with BCDC covers a voluntary (non-deposit) recovery system for all milk and soy beverage containers. At the end of 2010, there were 152 Encorp depots that accept milk and soy jugs and cartons. Although the Return-It Milk program is not covered by provincial regulation, and BCDC is not a product stewardship agency, it does produce an annual public report on the program's results, which can be found at www.milkcontainerrecycling.com



Raising consumer awareness keeps the returns coming

In 2010 the Encorp system collected over a billion containers, which is about 241 for every man, woman and child in BC. To collect and recycle that many containers you need a smoothly functioning, comprehensive system that covers the province. And, just as critical, you need a consumer base that understands and appreciates the value of recycling.

Each year we commit a significant budget to encourage consumers to continue to return their containers for recycling. We employ a wide range of tactics to ensure that the right message reaches the right people. We use public relations, promotions and community involvement in addition to general and targeted advertising through a range of media types.

Back by popular demand, in 2010 we reintroduced our “Don’t Mess with Karma” campaign. Three new animated spots were produced to encourage British Columbians to always return their beverage containers for recycling.



Revealing research

Ipsos Beverage Container Return Study 2010

We are results oriented. Every year Encorp engages a professional research company to survey hundreds of BC consumers to measure their awareness, attitude and behaviour. The results are compared to previous years to measure our progress and are also used as a guide in developing consumer awareness programs.

Our detailed research studies are a valuable tool in our drive to keep recyclable materials out of our landfills. This year we focused a portion of the study on the Discarder - the person who is most likely to throw containers into the trash. What we've learned will help us refine and target our message. The goal is to transform today's Discarder into tomorrow's Recycler.

Heavy Discarders (HD)

Those who typically discard at least 2 containers/week (any type, any location).

BC POPULATION 10%
CONTAINERS EMPTIED 19%
CONTAINERS DISCARDED 87%

Where and How Much

First, these are the heaviest generators of empty containers (their households account for 19% of all containers generated; they create, on average, more than double the number of containers a non-discarder does).

Second, they discard the largest proportion of containers they empty (19% of all their containers are discarded compared to 4% for BC consumers in general). They account for an incredible 87% of all containers discarded in BC. On average, an HD household discards about 11 containers/week, which adds up to more than 46 per month and more than 550 per year.

HD discard containers more often in all locations; HD discarded containers are split almost equally between all three locations (30% at home, 31% at work and 39% at leisure). Because of heavy consumption there, they strongly over-index on discards at work (94% of all containers discarded at work in BC are by HD compared to 87% of those discarded at home and 83% of those discarded at leisure).

Who They Are

More male (65%). Urban (25% City of Vancouver vs. 14% general population) and therefore more in multi-family dwellings (48% vs. 37% general population). Younger (56% 18-34 compared to just 28% of the general population), they are naturally more likely to be employed outside of the home (70% vs. 54%) or students (8% vs. 4%) and very predominantly single (46% vs. 23%).

How to Target

Make it easy for them.
Appeal to their selfish side.



Moderate Discarders (MD)

Those who typically discard between 0.4 and 2 containers/week (any type, any location).

BC POPULATION 14%
CONTAINERS EMPTIED 17%
CONTAINERS DISCARDED 11%

Where and How Much

Above-average generators of empty containers (their households account for 17% of all containers generated; they create, on average, about one and a half times the number of containers a non-discarder does). Still they produce far fewer (each household produces about 1/3 less empty containers) than HD do.

They are also above-average discarders, but again, on a far smaller scale than HD (they discard less than 3% of their containers and account for just 17% of all containers discarded in BC). On average, an MD household discards about 1 container/week, which adds up to about 4 per month and close to 50 per year.

Leisure is where MD do most of their damage, with work secondary (33% at home, just 15% at work but fully half, 52% at leisure). Still, because HD are responsible for so much of the discard, MD account for only 14% of total containers discarded at leisure, 12% at home and just 6% at work.

Who They Are

More balanced in gender than HD, more MD are still male (60%). These are largely suburbanites (45% Metro Vancouver outside of Vancouver vs. 36% general population) and therefore over-index on being in single-family dwellings (57%). They are more often young families; not as young as HD, they are nonetheless younger than low or non-discarders. Nearly all (79%) are under 54 years of age (vs. 65% of the general population). Most are married (60%) and are strongly families with children (36% vs. 24%).

How to Target

Make it fast for them.
Provide the means to recycle while at leisure.

Low Discarders (LD)

Those who typically discard between 0.1 and 0.3 containers/week (any type, any location).

BC POPULATION 11%
CONTAINERS EMPTIED 11%
CONTAINERS DISCARDED 2%

Where and How Much

More like an average British Columbian in the number of empty containers they produce, they over-index only slightly relative to those who discard nothing (their households account for 11% of all containers generated; they create, on average, about 15% more containers than a non-discarder).

Discards are very, very occasional (they discard less than 1% of their containers and account for just 2% of all containers discarded in BC). On average, an LD household discards fewer than 1 container/month, which adds up to less than 10 per year.

At leisure is really the only place where LD need to mend their ways (68% of all containers discarded by LD are at leisure, just 20% at home and 12% at work).

Who They Are

They are roughly like the average British Columbian on all demographics: where they live (equally urban and rural), gender, age, life stage, employment, dwelling status and marital status.

This means that many LD are middle aged or older empty nesters (71% are 35 or older, 34% 55 or older); many are post-family (44% households are composed of older adults only), married couples (65%), who are retired (22%), or still working (56%).

How to Target

Prove it matters.
Provide the means and motivation at leisure



2010 Major Consumer Programs

Encorp is proud of the high recovery rates maintained in BC every year. But there's always room for improvement. To continuously increase the already high recovery rates, Encorp develops and implements targeted specialty programs.

Return-It to Win-It™

Our annual summer promotion was back in 2010 to encourage consumers to Return-It to Win-It. Last year's theme convinced depot customers to Recycle Your Way to Adventure. One lucky customer from each participating depot won a camping gear package including a tent, camping chairs, cooler and more.

Outdoor Events

Encorp encourages people to recycle away from home by having their street team and mascot, Return-It Man, attend major events. Encorp also provides bins for outdoor spaces. In 2010, the team attended 130 trade shows and outdoor events, reaching more than 115,000 people.

BC Parks Pilot Program

Encorp has been busy keeping our parks clean. In the summer of 2009, they tested 57 bear-proof beverage recycling bins in three BC Parks: Rathtrevor Beach, Goldstream and Alice Lake. In 2010, Cultus Lake Park received bins as well. The parks receive the deposit refunds and most proceeds are given to their favorite charities. So far 235,800 containers have been collected, refunding over \$16,000 back to BC Parks.

School Recycling Program

This program helps elementary and high schools raise money while promoting environmental action. Now in its ninth year, the school program continues to grow. In the 2010 school year, Encorp recycling bins were provided to 365 more schools across BC. We have provided over 8,700 recycling bins to schools. 151,000 students participated in the annual competition to collect the most containers. Last year schools raised over \$291,000 in deposit refunds and the winning schools shared \$13,500 in prizes.

Return-It Man School Tour

You're never too young to learn about recycling. Last year, the Return-It Man team gave 33 presentations to nearly 6,000 elementary school students. The presentation features interactive sorting games, full audience participation and a "Recyclator" that shows kids what recycled containers turn into.



World-class recycling system hits the world stage

Hundreds of thousands of visitors came to Vancouver from all over the world for the 2010 Olympic and Paralympic Winter Games, and Encorp Pacific (Canada) took advantage of the opportunity to showcase British Columbia's world-class beverage container recycling system.

Encorp worked closely with Coca-Cola, a Worldwide Olympic Partner, to ensure that beverage containers were kept out of our landfills during Canada's Games. Encorp and Coca-Cola set an ambitious goal of collecting 100% of the plastic, single-serve beverage bottles consumed at the Games' 14 venue sites. As part of its legacy commitments, Coca-Cola used the funds raised from the collected containers to create an inner city sport court and fund athletic programming for the court through Vancouver's Ray-Cam Community Centre. In addition, the bottles collected from Games' venues were recycled into clothing for the community's 7,000 residents.

Collection was key

Collection bins for beverage containers were well distributed throughout the streets and public spaces that saw a major increase in traffic during the Games. In addition, over 600 Coca-Cola recycling barrels were placed throughout the Olympic and Paralympic Villages in Vancouver and Whistler and other Olympic venues to support the collection of containers.

The machines behind the scenes

Encorp supplied Coca-Cola with 14 Orwak compaction machines. These machines operated behind the scenes at various Olympic venues, compacting 10,800 plastic bottles down to a 4' high pallet. This allowed several thousand more containers to be transported in fewer loads to Merlin Plastics recycling facility, reducing the overall carbon footprint created by the trucks. Once the Games were complete, the machines were installed in several Return-It Depots. These depots reaped the benefits of compacting containers for more efficient transport, while their local communities benefited from reduced truck traffic and the associated reduction in greenhouse gases.

Return-It Man gets the gold

Beyond recycling beverage containers, Encorp showed their Olympic spirit by participating in the Mascot Mania event in the Vancouver's West End on February 12th. Encorp's official mascot, Return-It Man, led all other mascots across the finish line to secure the gold medal in the mini-triathlon!



A look at the key principles of the Industry Product Stewardship model

The Industry Product Stewardship (IPS) model was first set out in the 1997 regulation called Beverage Container Stewardship Program Regulation (BCSPR). Encorp Pacific, originally established in 1994, was reorganized in 1998.

Our new corporate architecture – federal incorporation under Part II of the *Canada Corporations Act* – was chosen specifically because it met the requirements of this new style of regulation.

In September 2002, the provincial government further codified the principles to be followed in its Industry Product Stewardship Business Plan.

The key principles are:

Responsibility for waste management is shifted from general taxpayers to producers and users.

All brand owners for a particular product category are subject to the same stewardship responsibilities.

All consumers have reasonable access to collection facilities.

Programs focus on results and provide brand owners with the flexibility to determine the most cost-effective means of achieving desired outcomes with minimum government involvement.

Programs encourage continued innovation by producers to minimize environmental impacts during all stages of the product life cycle, from product design to end-of-life management.

Industry is accountable to both government and consumers for environmental outcomes and allocation of revenues from fees/levies.

We strive to maintain consistent stakeholder support for Industry Product Stewardship (IPS) and for the way in which Encorp operates its recycling programs.

The IPS model provides Encorp with the optimum flexibility, allowing us to retain control of financial management and governance. Support for this model is fundamental and of the highest strategic importance. The way we operate our recycling programs further validates the IPS model as it demonstrates that industry will meet both public and private policy imperatives.

Brand owners, on behalf of their customers, want to minimize the costs of mandatory compliance schemes consistent with achieving acceptable environmental performance. Recycling, and in particular collection, for most materials is not self-sufficient and requires a subsidy – a cost borne by producers and consumers.



British Columbia Product Stewardship Group

Organization

There are currently 12 active stewardship organizations operating in British Columbia, with more slated to start operation in the coming years. The increase in product stewardship agencies is primarily due to the BC government's commitment to the Canadian Council of Ministers of the Environment (CCME) Canada-Wide Action Plan. The next four to seven years could see a total of 20 to 25 stewardship agencies operating in BC.

Stewards in British Columbia are fortunate in having a flexible, performance-based regulatory framework within which to operate.

BC Stewards recognize that with the ability to set fees and have minimal provincial government involvement, in operational details, comes a responsibility to work together.

Mission

Without limiting the authority and jurisdiction of each BC Stewardship Agency, the mission of the BC Stewards Group is to:

Provide a forum for the Ministry of Environment, local governments and BC Stewards to approach each other and engage in dialogue on issues of common interest and concern

Provide support to prospective BC Stewards in the development and implementation of their Stewardship Plans

Develop policies on issues such as service levels in remote areas

Develop a one-stop avenue for information brochures, videos and other communication tools to provide a common message to local governments and provide the public with a website and toll-free hotline for finding the nearest collection facility

Create a forum of support, knowledge and expertise for our members to optimize the delivery of cost-effective and environmentally sustainable stewardship programs in BC

Cooperatively work with other provinces and states in North America to minimize the impact and optimize the benefits for brand owner members who operate in most or all of North America

Deliverables to date:

The BC Stewards group has actively been providing consumer awareness, educational tools and collaborating on a variety of initiatives including:

1. The BC Recycling Handbook – an easy, convenient guide for consumers to find out what and where to recycle products that fall under industry stewardship programs.
2. www.bcstewards.com – a website that has consumer information, posts upcoming events such as consultation meetings, links to every steward's website and provides a forum for the group to communicate with each other. There is also a direct link to the RCBC Recyclepedia.
3. The EPR Video – the Industry Product Stewardship model is explained in this short video.
4. Participated with Stewards from across Canada in the Bi-Annual Conference on Canadian Stewardship to help facilitate the development of stewardship across Canada and to minimize the impact on consumers and brand-owner members.
5. Developed a service delivery guideline for consideration when developing new Product Stewardship Plans or amending existing plans. The guideline recognizes that over 98% of rural British Columbians live within a 45 minute driving radius of communities with a population of 4,000 residents. Service levels tied to community populations can maximize coverage and create a level playing field for all residents of rural regional districts.



British Columbia's Industry-Led Product Stewardship (IPS) model

Within our province, we have witnessed first-hand the environmental and economic benefits of our unique approach to product stewardship; one in which industry takes a leadership role in designing, operating and financing high performing stewardship programs.

Our achievements have also been noticed in other parts of the world. In particular, a number of states in the US are examining how they might apply the IPS model to fulfill their own needs.

On March 8, 2011, in Sacramento, California at a joint meeting of the Assembly Committees on Environmental Safety & Toxic Materials and Natural Resources, Neil Hastie, Encorp President & CEO, addressed the group on ***"British Columbia's Evolution to a Framework Approach."***

The theme of the meeting was ***"Alternative Regulatory Systems: Extended Producer Responsibility and Product Stewardship."***

Below is a transcript of a recent presentation given by Neil Hastie, Encorp President and CEO, to a joint meeting of the Assembly Committees on Environmental Safety & Toxic Materials and Natural Resources in Sacramento, California.

"Thank you for the opportunity to describe the British Columbia experience with Extended Producer Responsibility and Product Stewardship. California and B.C. have much in common. We are a people joined to the ocean and contained by our mountains. Our desire to protect the natural environment influences the way we think and the way we govern.

These shared values are being expressed in tangible ways through the Pacific Coast Collaborative that brings together the governments of California, Oregon, Washington and BC. At their meeting in Davis in November of last year, the governors and our premier announced their interest in coast-wide efforts to promote product stewardship, which includes the reduction of product materials that contribute to marine debris.

In my testimony today I will cover:

1. Key policy choices made by the government of BC
2. Economic and environmental outcomes from the product stewardship programs in BC
3. The evolution of our product stewardship regime
4. Lessons we learned

My hope is that I can reveal an experience with EPR that can be demonstrated to be good for the economy while doing good for the environment in your state as it has in my province. Encorp Pacific is an industry stewardship corporation operating stewardship programs for beverage containers and electronics. My Board is made up of major producers and retailers. My observations have been distilled out of 45 years in industry, the last 13 in the stewardship business.

Now, I would like to describe the elements of a winning approach to product stewardship regulation.



Firstly, the key policy decision is to hold industry responsible for physical and financial obligations in the end-of-life management of consumer products and packaging.

Secondly, government should regulate with a focus on results and ensuring compliance and ensuring a level playing field for all producers; however, they should neither operate stewardship programs nor prescribe in statute the methods to be employed by industry who they have charged with the duty to perform. Admittedly this takes courage and discipline. The results are worth it. This has been the BC experience.

So what are the results? Keep in mind that the California economy is ten times the size of BC. On the job front these stewardship programs have created 2100 fulltime jobs. There have not been any disruptions to our economy nor for the companies affected by these programs. On the environmental side, the diversion of materials away from landfill and into the resource recovery economy has annually reduced greenhouse gas emissions by 600,000 tons equivalent to taking 73,000 cars off the road with the conservation of 860,000 barrels of oil or 40 million gallons of gasoline. We are pleased with these results for our province. Your potential is significant.

How did we do it? It has been a journey that started almost 20 years ago with the BC government initially operating recovery programs for scrap tires and automobile lead acid batteries. These initiatives were financed through the sales tax system. Recognizing the wide range of other materials that were entering the environment and therefore a risk to human health and at the request of local governments faced with increasing costs; government officials were keen to do more but were constrained by budget difficulties and the need

to reduce staff and to downsize government. As Yogi Berra once observed – It's déjà vu all over again.

Coincidentally, in Western Europe, laws were emerging that shifted the financial responsibility away from government to producers and consumers. In addition to relieving local governments of the burden of costs, the goal was to engage producers in end-of-life management to incentivize them to embrace sustainable design and production and to use their market expertise to elevate environmental performance. It became known as EPR.

This was a game changer in BC. From 1994 to 1998 the government under the NDP (similar to the Democratic Party) enlisted, through regulation, industry to set up stewardship programs for used oil, unused pharmaceuticals, leftover paint, and a wide range of residual HHW.

The final crossroad on our journey was the introduction by the Liberal government (similar to the Republican Party, you can observe that product stewardship in BC has not been a political or ideological issue) in 2004 of a true framework approach. Here's why: Industry, now being required to accept end-of-life management for a wide range of consumer products, wanted, as a quid pro quo, to reduce the amount of prescription that had crept into the individual separate regulations. Other industry sectors recognizing that they too would soon be regulated wanted certainty as to what the intent and the requirements would be for their products.

As well, government officials could see that their oversight duties were being made quite onerous as the prescriptions within the individual regulations required them to second guess markets and to resolve a myriad of business to business conflicts. Today, the BC government employs six fulltime staff to administer all of these



programs and local governments, now relieved of this responsibility, enjoy significant savings in direct staff and landfill costs.

In your information package is the BC Recycling Handbook published by industry. All of these programs are industry operated stewardship programs. Since we published the handbook last year, new programs for fluorescent lighting, thermostats and small appliances have been approved. Packaging and printed-paper is scheduled to be brought under industry stewardship within the near future.

Would we go back to government-operated programs? No we would not. Industry likes it the way it is. Environmental groups are satisfied that industry is performing. Governments at both the senior and local level envisage the day when all consumer products and packaging are managed by industry through EPR programs and local governments handle only organics such as food waste.

In conclusion, here is what I think we know:

1. To minimize economic distortions, optimize job creation and reduce the burden on local taxpayers, allow industry to design, finance and operate regulated stewardship programs for consumer products and packaging
2. To achieve continuously improving environmental outcomes, require industry to provide verifiable and transparent reporting of results
3. To enlist broad support, consult widely in advance of implementing industry led stewardship programs

EPR is an alternative regulatory system that works. Initiated under a well-designed framework approach, industry will, in my opinion, accept its responsibilities and produce economic and environmental results for your citizens.

In closing I suggest that several questions need to be answered as you debate the future for expanding product stewardship in California.

If not now, when?
If not you, who?

Thank you."



A governance model built on accountability and transparency

Encorp recognizes that its responsibilities as an Industry Product Stewardship (IPS) corporation require a governance model that places great emphasis on high standards of accountability and transparency.

Allen Langdon

Vice President, Sustainability. Encorp Affiliation – Retail Council of Canada. Committee – Governance. Term of office – Commenced 2008

Allen Langdon has been Director, Spirit of BC for 2010 legacies and an Associate Vice-President for a national public affairs consulting firm. He is also a member of the Board of Directors for the Housing Foundation of BC.

John B. Challinor II APR

Director of Corporate Affairs, Nestlé Waters Canada. Encorp affiliation – BC Bottled Water Association. Committee – Audit. Term of office – Commenced 2008

John Challinor has had executive and senior advertising and public affairs roles with leading technology and health industry companies over the last 27 years. He began his career as a newspaper and television reporter and editor. He served as a part-time municipal councillor for 15 years in Milton, Ontario, Canada's fastest-growing community. He holds a Bachelor of Applied Arts degree in Journalism from Ryerson University, an Accredited Public Relations (APR) designation from the Canadian Public Relations Society and a Certificate in Advertising from the Institute of Canadian Advertising. He is a member of the Board of Directors of Alberta Beverage Container Recycling Corporation, Alberta Beverage Council and the Canadian Beverage Container Recycling Association.

Dan Wong - Chair

Encorp Affiliation – Juice Council of British Columbia. Committees – Audit/Compensation/Governance. Term of office – Commenced 1998

Dan Wong currently serves as the Executive Director of the Juice Council of BC. He has been Vice-President, Corporate Affairs, BC Ferries as well as heading the Corporate Relations practice for western Canada's largest food manufacturer. He holds a Bachelor and Master degree in Political Science from UBC.

Neil Hastie

President and CEO, Encorp Pacific (Canada). Encorp Affiliation – Inside Director. Term of office – Commenced 1998

Neil Hastie has been the President and CEO of Encorp Pacific since 1998. He has extensive senior executive experience with a variety of companies. He holds a Masters degree in Business Administration from York University in Toronto.

Dale Parker

Chairman, Pacific Parkinson's Research Institute. Encorp Affiliation – Unrelated Director. Committees – Compensation/Governance. Term of office – Commenced 2002

Dale Parker has been the President and CEO of the Bank of British Columbia and the Workers' Compensation Board of BC. He is also Chair of the Board of Directors of TransLink, a member of the Board of GrowthWorks BC and the UBC Investment Management Trust and is a graduate of the Graduate School of Business Administration, Harvard University.

Liisa O'Hara

Commissioner, British Columbia Utilities Commission. Encorp Affiliation – Unrelated Director. Committee – Audit. Term of office – Commenced 1999

Liisa O'Hara has been a senior executive with a major pipeline company with responsibilities on its Executive Management Committee and as Chair of its Pension Committee. She is a Director of the Terminal City Club, a graduate of the ICD Corporate Governance College and a Certified General Accountant.



John Nixon

Secretary, Beverage Alcohol Containers Management Council of BC. Encorp Affiliation – Beverage Alcohol Containers Management Council of BC. Committees – Audit/Governance. Term of Office – Commenced 2009

John Nixon, a graduate of UBC, is an independent public affairs consultant who is also General Manager of the BC Wine Authority. He has had extensive experience in the beverage industry and was a founding member of the Board of Encorp Pacific (Canada).

Baljit Lalli

Public Affairs and Communications Manager, Western Canada, Coca-Cola Refreshments Canada. Encorp Affiliation – Canadian Beverage Association. Committee – Governance. Term of office – Commenced 2009

Baljit Lalli has held corporate communications positions with companies such as James Hoggan and Associates for the Sea-To-Sky Highway Improvement Project, Labatt Breweries and the Provincial Government. She is a former Director of Room to Read Canada.

Neil Antymis

Director, Government Affairs, PepsiCo. Encorp Affiliation – Canadian Beverage Association. Committees – Audit/Compensation. Term of office – Commenced 2005

Neil Antymis is a Certified General Accountant with 19 years of experience in the beverage industry. He is the Chair of the Canadian Beverage Association's Environmental and Packaging Stewardship Committee and sits on several stewardship boards and committees.

John MacNichol

Vice President Merchandising, H.Y. Louie Company Ltd. Encorp Affiliation – Retail Council of Canada. Committee – Compensation. Term of office – 2009-2010

John left the Board at the end of 2010.

John MacNichol has had over 30 years of experience in sales and merchandising in the packaged goods industry including 17 years in wholesale and retail operations. He is a Director with the BC Football Hall of Fame and with the First Tee Foundation of Metro Vancouver.



Governance

Board of Directors

Board Structure – The 10-person Board is made up of nominees of the five key industry sectors and two unrelated directors. Two directors are appointed by the Canadian Beverage Association representing the major bottlers, one each is appointed by the Canadian Bottled Water Association, the Juice Council of BC and the Beverage Alcohol Containers Management Council of BC, and two are appointed by the Retail Council of Canada representing the major retail grocery stores. Two directors are unrelated to any aspect of the beverage industry. Encorp's President and CEO is also a director.

The Board determines the company's strategy and policies, sets objectives for the CEO, approves budgets and fees, and discharges its fiduciary obligations to the brand owners and other stakeholder groups. It provides oversight of Encorp's operations through quarterly Board meetings and an annual strategic planning session.

In addition to its structure, Encorp's governance model incorporates a number of values and processes that guide the functioning of the Board.

Accountability

A fundamental part of Encorp's commitment to accountability is a set of policies and practices codified in a Board Manual for Directors prepared by one of Canada's leading experts on corporate and not-for-profit governance.

The policies in the Board manual cover such key items as terms of reference for the Board, the Chair, Directors and the CEO, as well as a Code of Conduct for Directors, including conflict-of-interest guidelines. The policies also set out how committee memberships are to be established, lay out terms of reference for Encorp's Board committees and specifies important review processes that the Board must undertake of the CEO and of its own performance.

Transparency

Encorp provides a comprehensive public explanation of its operations through this annual report, its Advisory Committee and other methods. This transparency exceeds the requirements of regulation and is designed to provide as much information as possible to the general public.

Committees

Three Board committees meet regularly to assist the Board in discharging its fiduciary obligations.

Audit

The committee, chaired by an unrelated director, is charged with overseeing financial responsibility, assessing the company's risk and control environment, and evaluating internal control and the independent audit processes.

Human Resources and Compensation

Establishes the performance evaluation of the CEO, recommends the CEO's compensation and ensures that the company has an appropriate organizational structure and succession policy.

Governance

Has a public duty and obligation with respect to the purposes, objects, structure and makeup of the company and its Stewardship Plan. It also includes a non-Board member in the person of the Chair of the Advisory Committee.

Each year, Directors complete a written Board assessment the results of which are evaluated and reported to the Board by the Governance Committee. The Committee is chaired by an unrelated director.

In 2010 the Committee, in addition to the Board assessment, facilitated a Peer Review of all Directors. This review had been developed for Encorp by an external governance practitioner.

The Committee develops criteria that the Board may consider in making appointments to the Board and to the Advisory Committee.



Advisory Committee

Encorp Advisory Committee Report to the Board of Directors – 2010

The Advisory Committee met twice in 2010, on April 30 and November 5, with agenda items that included consumer awareness, annual draft budget, audited financial statements, 2010 Olympic beverage container recycling, Advisory Committee Terms of Reference, and new Advisory Committee members.

Committee members were pleased with the consumer research conducted by Encorp and complimented the staff for their efforts in consumer research and awareness. There were good discussions on the difficulty of getting municipalities and educational institutions to use the same messaging, collection bins and methods and on the various methods of motivating both adults and children to recycle.

The Committee received verbal reports from Neil Hastie on Phase 2 of the electronics stewardship program and Encorp's strategic planning process. Committee members were very interested in the discussion surrounding product stewardship for packaging and printed paper. The committee thanked Encorp for the opportunity to meet with the Board of Directors at the Strategic Planning Session.

The Committee welcomed new "Citizen-at-Large" member Robert Knall, Senior Planner with the Township of Langley and also reviewed the Committee's Terms of Reference, recommending some changes.

The Committee members continue to offer advice and direction to Encorp management and to the Board of Directors based on the input they receive from their respective sectors.

Respectfully submitted

A. Lynch, Chair



Advisory Committee Members

Al Lynch – Chair

Manager, North Shore Recycling Program, North Vancouver
On Advisory committee since 2000

Al has been in his present position at North Shore Recycling since 1990. He has written an Integrated Solid Waste Management plan and has implemented a variety of recycling programs. He is Vice-President of the BC Chapter of the Solid Waste Association of North America.

Linda Barnes

Councillor, City of Richmond
On Advisory committee since 2006

Linda has been a council member for the City of Richmond since 1999. She is a former classroom assistant for children with special needs and a former president of the Richmond School Board Employees Union.

Will Burrows

Executive Director, Coast Waste Management Association
On Advisory committee since 2008

In addition to his duties as Executive Director he also runs a consulting business. Will has been the Project Manager for the largest metal recycler on Vancouver Island and is a past Board member of the Victoria Esquimalt Harbour Society.

Ken Lyotier

Founder and Executive Director, United We Can Bottle Depot On Advisory committee since 2005

Ken founded United We Can, a non-profit bottle depot, in 1995 in order to provide work experience opportunities and income for residents of the Downtown Eastside Vancouver. He was awarded a Medal for Meritorious Service by the Governor-General of Canada.

Robert Knall

Senior Development Planner, Township of Langley,
Community Development Division, Development Planning
Section. On Advisory committee since 2010

Robert has been a planner with the Township of Langley since 1988, and is the Planning Institute of BC's representative on the Advisory Committee.

Brock Macdonald

Executive Director,
Recycling Council of BC
On Advisory committee since 2007

Brock was RCBC's Director of Communications prior to his role as Executive Director. Formerly he was Communications Manager for Product Care, an industry product stewardship agency, an educator and award-winning journalist.

Janice Song

Owner/operator, Ironwood Bottle Depot
On Advisory committee since 2006

In addition to the Ironwood Depot, Janice owns the Coquitlam Depot, both of which are 3 Star and 5 Star designated. She has been a certified depot operator trainer for Encorp and has trained over 30 new depot operators.

Alan Stanley

Director of Environmental Services, Regional District of
Kootenay-Boundary On Advisory committee since 2008

Alan manages a regional integrated solid waste management system that includes recycling collection programs, recycling depots, landfills and waste transfer stations.

Catarina Wong

Senior Director, Tax Operations and Government Affairs,
Core-Mark International On Advisory committee since 2000

Catarina has a Master Degree in International Tax Law from Regent University, School of Law and is a Certified Management Accountant.



Encorp Pacific Environmental Report

The Government of British Columbia has adopted public policies intended to promote a low carbon economy. As a stewardship agency operating under a provincial regulation, Encorp has an opportunity to disclose the impacts of its stewardship activities. In addition to informing our stakeholders, the benchmarking of our green house gas emissions opens a window for improved efficiency and the potential to reduce energy consumption in the future. We believe there is a sound business case for these initiatives.

Reduction in greenhouse gas emissions from recycling

In 2010, Encorp collected and had over 97,000 metric tonnes of material recycled. The energy saved through the recycling of materials collected by Encorp can be converted into tonnes of carbon dioxide equivalent (CO₂e) (the common measure of greenhouse gases (GHGs)), based on the US Environmental Protection Agency's (EPA) Waste Reduction Model. The model calculates net emission reductions based on the average distribution of fuels consumed along the entire lifecycle production process¹.

In total, Encorp's activities in 2010 contributed to the reduction of about 135 thousand tonnes of CO₂ equivalent being released into the atmosphere, a slight decline of 2.3 thousand tonnes from 2009. The decline is due to the changed mix of the material collected and the different energy savings related to each material type.

Material	% Energy Savings from Use of Recycled Inputs for Manufacturing of Material	tonnes CO ₂ equivalent reduced
Aluminum	93%	77,307
Plastic	86%	21,037
Pouches/Bag-in-Box	53%	1,089
Glass	34%	27,218
Bi-Metal	82%	361
Polycoat	53%	8,193
Total		135,206

Greenhouse gas emissions associated with Encorp's stewardship activities

While recycling has an overall net benefit in terms of energy and emissions savings, the recycling process itself does require energy and thus has GHG emissions associated with it. While the EPA's Waste Reduction Model does factor in the typical energy use associated with recycling when estimating net savings, Encorp has committed to specifically estimating the GHG emissions associated with its stewardship activities. By doing so, we hope to identify ways in which we can minimize our carbon footprint.

Since Encorp is not a manufacturing company, the majority of our associated GHG emissions come as a result of transporting materials as well as heating and powering our network of facilities. Therefore, we define Encorp's GHG inventory boundary from the point that empty containers enter into the Encorp system at either a depot or retailer, to when the materials are delivered to the end processors for recycling into new products. Emissions were estimated using conversion factors and methodologies developed by the World Resource Institute's Greenhouse Gas Protocol.

The services provided to Encorp are done through third party independent contractors and the emissions produced by these activities are classified as Indirect Scope 3 GHG emissions in accordance with the World Resource Institute's Greenhouse Gas Protocol. With limited data availability for Scope 3 emissions we accept that data accuracy is lower.

Accounting and Reporting on Scopes

Emission calculations from purchased electricity were based on a survey of a number of depots and processors in each Region. These depots and processors were asked to provide their purchased electricity and natural gas consumption during the year.

The sample was used to estimate the energy use per metric tonne of material collected which was then extrapolated to



the total weight of used beverage containers collected in the Province.

The estimated energy consumption in kWhs was then converted into the carbon dioxide emissions using the calculators offered by the Greenhouse Gas Protocolⁱⁱⁱ.

Emissions Sources Exclusions

Emissions associated with heating and powering the Encorp head office are not included in the GHG inventory since the office is part of a shared lease facility for which heat and power is controlled centrally by the landlord.

Staff commuting to work in personal cars was excluded as this is considered to fall under the personal carbon footprint of the employee and Encorp has little control over where people choose to live. Staff commuting and travel on BC Ferries was also excluded as we were unable to quantify BC Ferry fleet GHG emissions.

Finally, emissions associated with the handling of materials outside of Encorp's core stewardship activities of deposit bearing beverage containers, such as milk cartons and electronics, were excluded since such activities fall outside the scope of Encorp's core recycling stewardship activities for BC.

“When you look at the amount of materials collected and the 135,000 plus tonnes of CO2 reductions accomplished, Encorp has really set a high performance standard for stewardship programs in BC.”

Brock Macdonald,
Recycling Council of British Columbia

i US EPA, Waste Reduction Model, Version 10 (10/09); US EPA, Solid Waste Management and Greenhouse Gases (2002) (Exhibits 2-3 to 2-6) were used to calculate 2010 and 2009 avoided emissions of CO2.

ii GHG Emissions from purchased electricity worksheet V 4.1. (Jun 2009) and GHG emissions from transport or mobile sources V 2.0 (Jun 2009) from the Greenhouse Gas Protocol Initiative were used to calculate emissions for 2010.

iii GHG Emissions from purchased electricity worksheet V 4.1. (Jun 2009) and GHG emissions from transport or mobile sources V 2.0 (Jun 2009) from the Greenhouse Gas Protocol Initiative were used to calculate emissions for 2010.

iv All indirect emissions except for Office use were calculated based on the sample data provided by selected Depots, Processors, and Transporters.

v Electricity Intensity Table for BC provided for 2008 retrieved from <http://www.ec.gc.ca> on April 13, 2011.



Emissions Inventory Summary

Emissions Inventory Summary (tonnes CO ₂)	2010 ⁱⁱ	2009 ⁱⁱⁱ (restated Note 1)
Type of Emission		
Direct emissions are emissions from sources that are owned or controlled by Encorp		
Employee travel - gas use	34	27
Indirect emissions occur as a consequence of the activities of Encorp, but are from sources not owned or controlled by Encorp. Inclusions are emissions from purchased electricity consumed by Encorp offices, depots, processors and transporters, as well as the transportation of the beverage containers by contracted transporters ^{iv} .		
Offices (excluding head office)		
Purchased electricity in leased buildings (excluding head office)	4	3
Employee domestic air travel	16	14
Depots		
All purchased electricity in owned or leased buildings	104	118
All natural gas consumed in owned or leased buildings	68	75
Processors		
All purchased electricity in owned or leased buildings	40	28
All purchased gas consumed in owned or leased buildings	10	3
Transportation – depots to processors		
Diesel fuel	4,172	4,386
Transportation – processors to end markets		
Diesel fuel	1,381	1,507
Rail (based on metric tonne km)	368	392
Sea travel (based on metric tonne km)	4,216	4,555
Total Emissions all sources	10,188	10,880

Note 1

In 2010, we changed our methodology to convert kWh into CO₂ emissions using the British Columbia Electricity Intensity factors retrieved from the Environment of Canada Website^v. As a result of using the proper mix of the low emission public utilities in BC, the calculated emissions from the purchased electricity declined drastically that required us to restate the prior year emissions.

In addition, this year we included other GHG gases (CH₄ and N₂O) in the calculation to provide reporting on the CO₂ equivalent (CO₂e) to better match the reported emissions avoided into the atmosphere as a result of our recycling activities. This inclusion required restatement of the prior year emissions as well.



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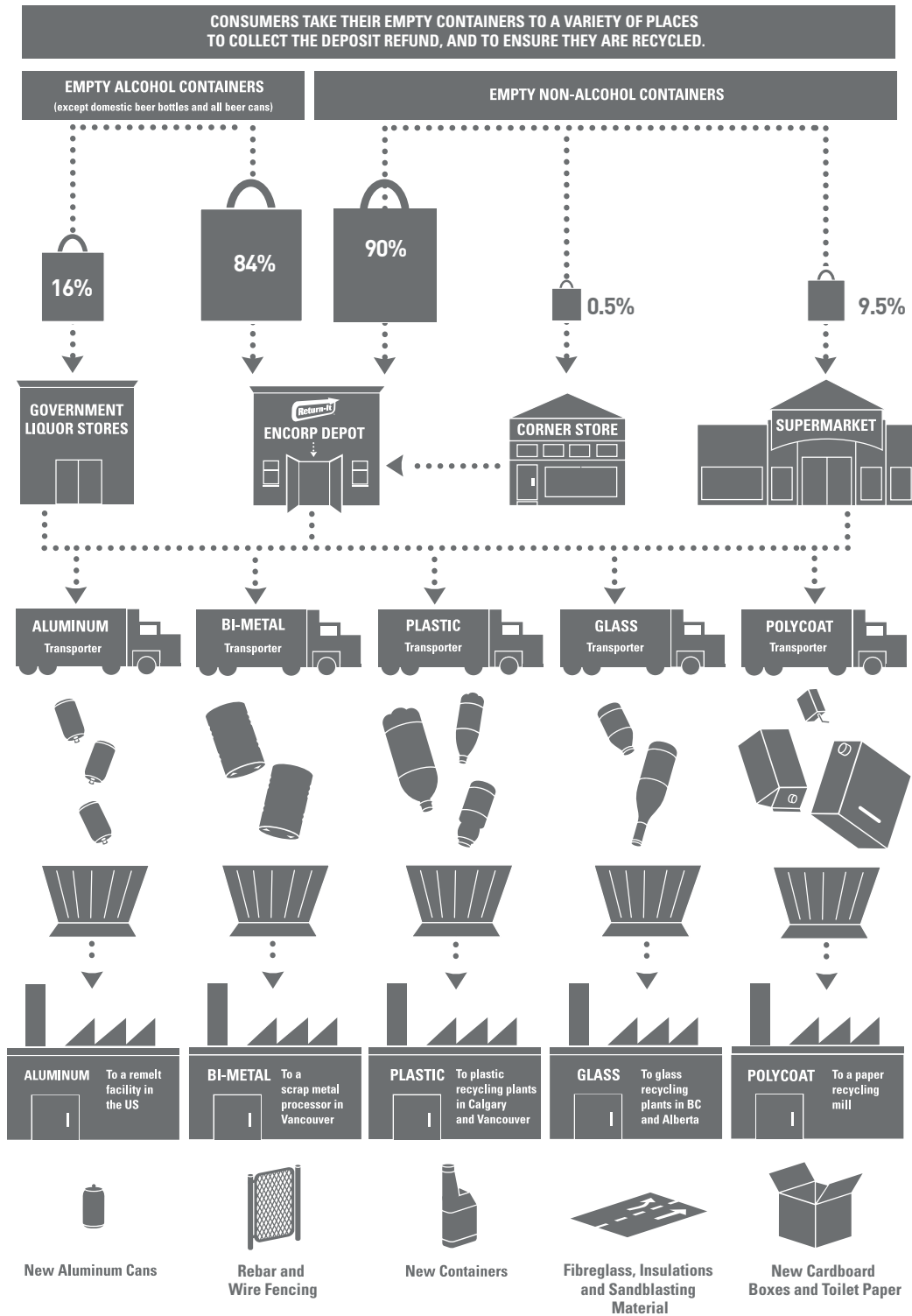
Emissions Reduction Strategies

The overall decrease in emissions in 2010 compared to 2009 was partly due to the lower volume of containers collected. Approximately 45 million fewer containers were collected by the depots in 2010 as compared to 2009.

In addition, 14 small compactors were installed at 8 of our depots for a total of 17 compactors in 10 depots by the end of 2010. Even though we have not attempted to quantify the avoided emissions as a result of the depots' use of the compactors in 2010, we were able to confirm that the number of trips to pick up from these depots was reduced by 30% on an annual basis thereby saving fuel and reducing emissions.



How the collection system works



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Follow the money

Commodity Prices and their Impact on Encorp

A portion of the cost of recovering aluminum and plastic containers, the two largest product categories, is covered by the value of the commodity collected. The prices received for these commodities are subject to market forces, and variations can have a significant financial impact on Encorp. In 2010 the price for aluminum has rebounded from a low of US\$0.40 in 2009 to US\$0.70 per pound in 2010 while prices for plastic increased from US\$0.09 in 2009 to US\$0.21 per pound in 2010. The impact of these variations can be seen on these charts.

Deposit Refunds

Paid to depots and grocery retailers to reimburse them for the deposits they have refunded to consumers.

Container Handling Fees

Per-unit fees paid, in addition to deposit reimbursement, to depots for collecting containers.

Transportation & Processing

Contracted trucking companies collect containers from depots and grocery retailers and take them to processors where they are compacted for shipment.

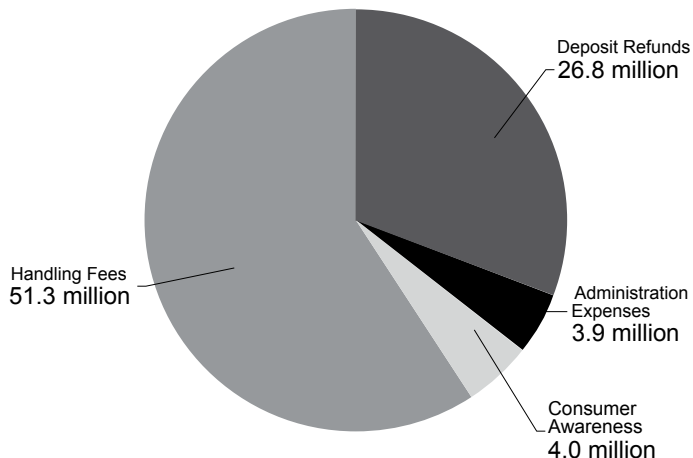
Consumer Education & Awareness

Programs that encourage consumers to return containers for recycling.

Administration

Management of contracts, collection of revenues and payment of expenses.

**Where the money is spent
EXPEDITURES**



Unredeemed Deposits

Encorp is paid a deposit on every container sold. Deposits unclaimed are used as revenue.

Sale of Processed Containers

All the collected aluminum, plastic, glass, etc. is sold on the open market.

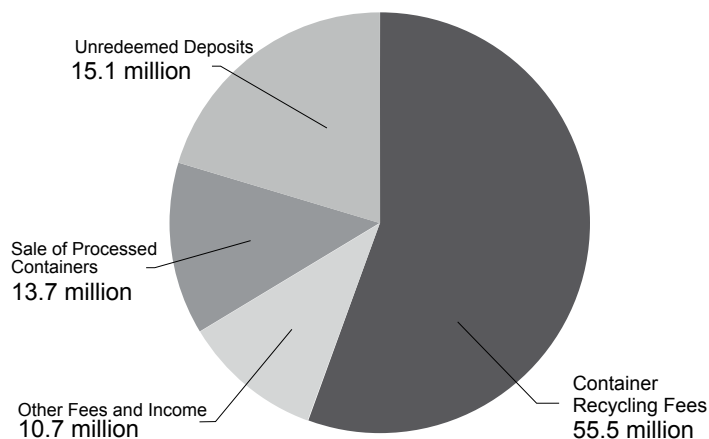
Container Recycling Fees

When the revenue from unclaimed deposits and from sales of collected material are insufficient to cover the costs of recovering and recycling a specific container type, a non-refundable recycling fee is added to the container to make up for the shortfall.

Other Fees

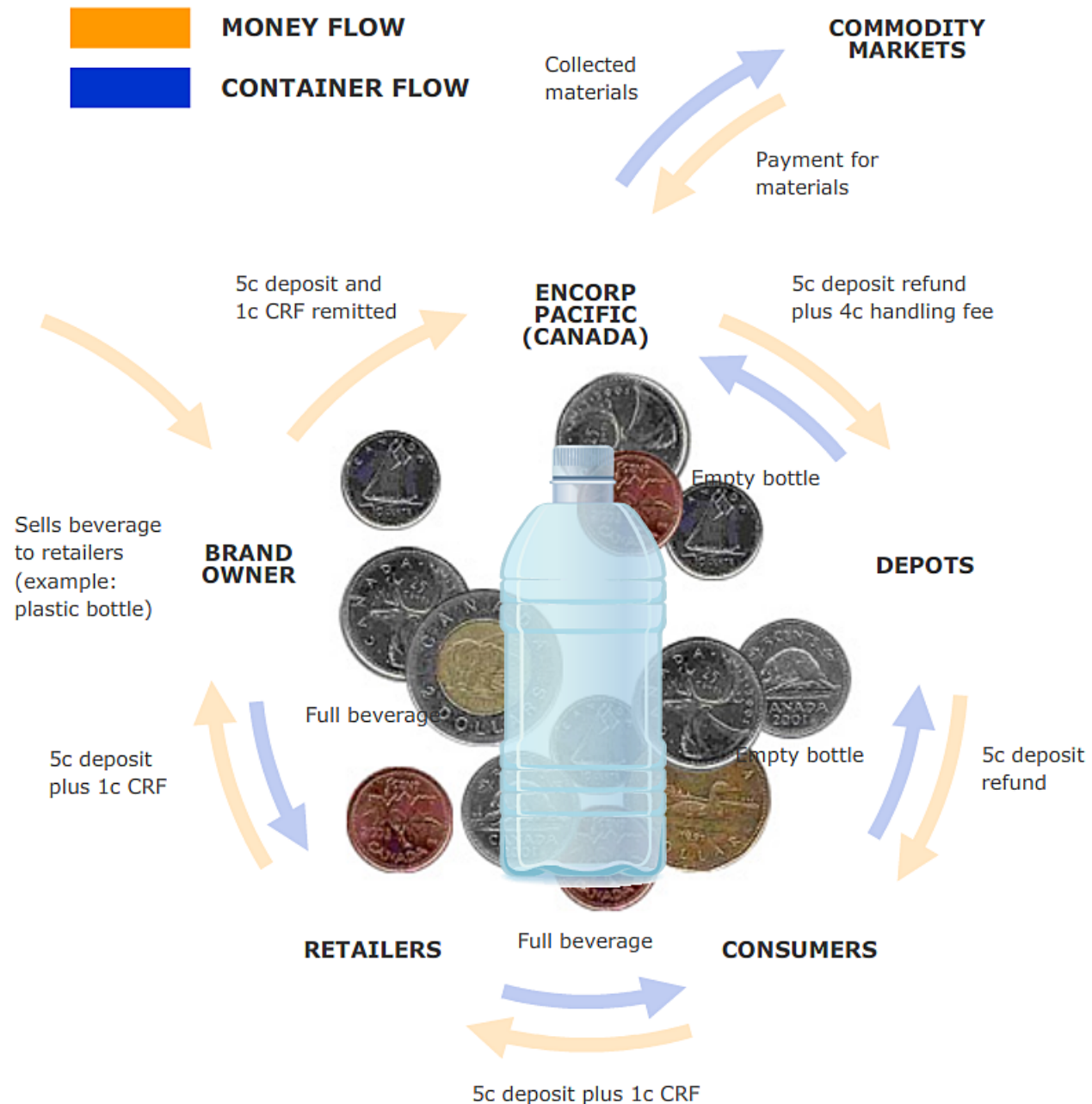
Revenues from service provider contracts.

**Where the money comes from
REVENUES**



How the money flows

The arrows show the direction of payments for deposits and container recycling fees (CRF) and the movement of a plastic bottle



Our Reserves

Frequently Asked Questions

The recession had a significant negative impact on our revenues. On a positive note, our recovery of containers actually increased. At the end of 2009, our reserves created over the period of 2002 to 2006 had been depleted. Through prudent cash management, our day to day operations were not affected. We continued to handle all our obligations (\$2 million to \$3 million each week) without requiring any form of debt financing.

All our public education programs were maintained as were important research and development activities such as compaction and new generations of information technology. These results bring into sharper focus the importance of adequate reserves.

Starting in the 3rd quarter of 2009 and through 2010, we have been rebuilding our reserves.

Question: Why does Encorp need reserves?

Our weekly expenses paying for deposit refunds, handling fee payments to depots, transportation and processing must be met without interruption. The many small businesses that rely on our cash payments could not be viable if there was any kind of disruption or delay in our regular and predictable pattern of payments. However, our revenues are not as reliable as they depend on the volatility of the beverage and recycling markets. The reserves are the cushion we need to ride through the up and down cycles in these markets.

Question: How does Encorp create reserves?

Each year we forecast the expected sales of beverages in the province and our rate of collection of containers to estimate our revenues and expenses. To ensure that we can cover our costs we determine the level of fees we will have to charge our brand owners. By setting the appropriate fees we can create, increase or decrease a reserve for each type of container. The individual container reserves combined represent our total overall reserves.

Question: What size of reserve is required?

From experience, we should have a minimum reserve equal to at least 4-6 week's worth of the \$2-3 million per week outgoing cash payments. This cushion allows us to tolerate the cycles in the beverage and recycling markets.



Financing the System

Plastic - up to 1L Account

Plastic ≤ 1L Account

Deposits	\$18.5 Million
Sale of Collectible Material	\$ 3.2 Million
CRF	\$15.0 Million
<hr/>	
Total Revenue	\$36.7 Million
<hr/>	
Total Expenses for this Container	\$32.9 Million
<hr/>	
Surplus	\$ 3.8 Million

Total Expenses Breakdown

Deposit Refund	\$14.1 Million
Handling Fee	\$13.5 Million
Transportation and Processing	\$ 3.9 Million
Administration	\$ 0.8 Million
Consumer Awareness	\$ 0.6 Million
<hr/>	
	\$32.9 Million

Surplus end of 2009	\$1.7 Million
Surplus 2010	\$3.8 Million
Surplus end of 2010	\$5.5 Million



Container Recycling Fees (CRF)

The following table shows CRF changes over time for major container categories. CRF included in retail price until Spring 2000 CRF shown separately by most grocery retailers after Spring 2000.

Container Type	Size	Deposit Rate	1-Feb-05	1-Sep-05	1-Feb-06	1-Aug-06	1-Feb-07	1-Apr-07	1-Mar-08	4-May-08	1-Feb-09	1-Oct-09	1-Feb-10
Aluminum	0-1 L	5.0 cents	1.0 cent	-	-	-	-	-	-	-	1.0 cents	2.0 cents	no change
Plastic	0 - 500 ml	5.0 cents	3.0 cents	3.0 cents	2.0 cents	1.0 cent	1.0 cent	1.0 cent	3.0 cents	3.0 cents	4.0 cents	4.0 cents	no change
Plastic	500 - 1L	5.0 cents	3.0 cents	3.0 cents	2.0 cents	1.0 cent	1.0 cent	1.0 cent	3.0 cents	3.0 cents	4.0 cents	4.0 cents	no change
Plastic	> 1L	20.0 cents	4.0 cents	4.0 cents	4.0 cents	4.0 cents	3.0 cents	3.0 cents	3.0 cents	3.0 cents	3.0 cents	5.0 cents	no change
Polystyrene			1.0 cent	1.0 cent	1.0 cent	1.0 cent	1.0 cent	1.0 cent	3.0 cents	3.0 cents	4.0 cents	4.0 cents	no change
Glass	0 - 500 ml	5.0 cents	4.0 cents	4.0 cents	4.0 cents	4.0 cents	4.0 cents	4.0 cents	5.0 cents	5.0 cents	7.0 cents	10.0 cents	no change
Glass	500 - 1L	5.0 cents	4.0 cents	4.0 cents	4.0 cents	4.0 cents	4.0 cents	4.0 cents	5.0 cents	5.0 cents	7.0 cents	10.0 cents	no change
Glass	> 1L	20.0 cents	5.0 cents	5.0 cents	5.0 cents	5.0 cents	5.0 cents	5.0 cents	5.0 cents	5.0 cents	7.0 cents	10.0 cents	no change
Bi-Metal	0 - 500 ml	5.0 cents	-	-	-	-	-	-	-	-	-	-	-
Bi-Metal	500 - 1L	5.0 cents	-	-	-	-	-	-	-	-	-	-	-
Bi-Metal	> 1L	20.0 cents	-	-	-	-	-	-	-	-	-	-	-
Bag-in-Box	> 1L	20.0 cents	-	-	-	-	-	-	-	-	-	-	-
Drink Boxes up to 500 ml	0 - 500 ml	5.0 cents	-	-	-	-	-	-	-	-	-	-	-
Drink Boxes 501 ml - 1L	500 - 1L	5.0 cents	4.0 cents	4.0 cents	4.0 cents	4.0 cents	4.0 cents	4.0 cents	4.0 cents	4.0 cents	4.0 cents	4.0 cents	no change
Drink Boxes > 1L	> 1L	20.0 cents	-	-	-	-	-	-	-	-	-	-	-
Gable Top up to 500 ml	0 - 500 ml	5.0 cents	-	-	-	-	-	-	-	-	-	-	-
Gable Top 501 ml - 1L	500 - 1L	5.0 cents	-	-	-	-	-	-	-	-	-	-	-
Gable Top > 1L	> 1L	20.0 cents	-	-	-	-	-	-	-	-	-	-	-
Drink Pouches	0-1 L	5.0 cents	-	-	-	-	-	-	-	-	-	-	-
Glass Wine & Spirits ≤ 1L	0-1 L	10.0 cents						9.0 cents	9.0 cents	10.0 cents	12.0 cents	14.0 cents	no change
Glass Wine & Spirits > 1L	> 1L	20.0 cents						12.0 cents	12.0 cents	12.0 cents	14.0 cents	16.0 cents	no change
Non-Refillable Beer, Cider, Cooler Glass ≤1L	0-1 L	10.0 cents						6.0 cents	6.0 cents	7.0 cents	8.0 cents	10.0 cents	no change
Non-Refillable Beer, Cider, Cooler Glass > 1L	> 1L	20.0 cents						7.0 cents	7.0 cents	7.0 cents	8.0 cents	10.0 cents	no change
Liquor Plastic ≤ 1L	0-1 L	10.0 cents						2.0 cents	2.0 cents	2.0 cents	4.0 cents	4.0 cents	no change
Liquor Plastic > 1L	> 1L	20.0 cents						7.0 cents	7.0 cents	7.0 cents	7.0 cents	8.0 cents	no change
Liquor Bag-in-Box	> 1L	20.0 cents						-	-	-	-	-	-

Containers up to and including 1L – .05 deposit

Container over 1L – .20 deposit

A complete list of current CRF amounts is available on our website - www.encorp.ca



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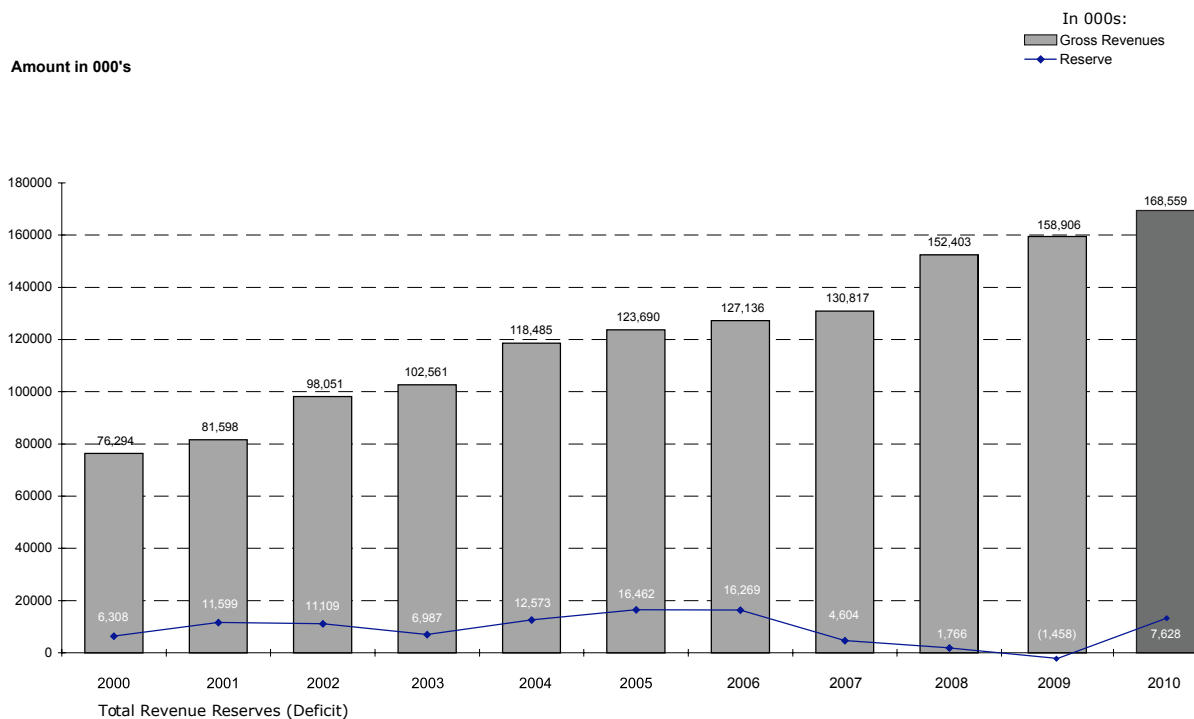
Purpose of Operating Reserves

After all expenses are paid any funds remaining are placed into reserves. Encorp acts as a clearinghouse for the funds required to reimburse consumers for deposits and pay the costs of running the system. Encorp strives to maintain a minimum level of reserves to maintain the system's financial viability over the long term. If these reserves build up beyond reasonable levels, actions are taken to bring them back into line.

These actions can include reduction or elimination of Container Recycling Fees until the reserve is reduced.

Or we can reduce the reserve by increasing spending on activities designed to improve the recovery rate for a specific container type. The table shows the changes in the reserves over the past years.

Gross Revenue vs Reserves Year 2000 - 2010



Summary of Operating Reserve (Deficit)

For the Year Ending December 31, 2010

	2007 BALANCE	2008 YEAR	2008 BALANCE	2009 YEAR	2009 BALANCE	2010 YEAR	2010 BALANCE
Operating Reserve (Deficit)	\$(1,179,184)	\$(2,776,631)	\$(3,955,815)	\$(1,779,477)	\$(5,735,292)	\$11,118,757	\$5,383,465
Restricted Reserve	5,783,521	(61,502)	5,722,019	(1,444,715)	4,277,304	(2,032,624)	2,244,680
Total Reserves (Deficit)	\$4,604,337	\$(2,838,133)	\$1,766,204	\$(3,224,192)	\$(1,457,988)	\$9,086,133	\$7,628,145



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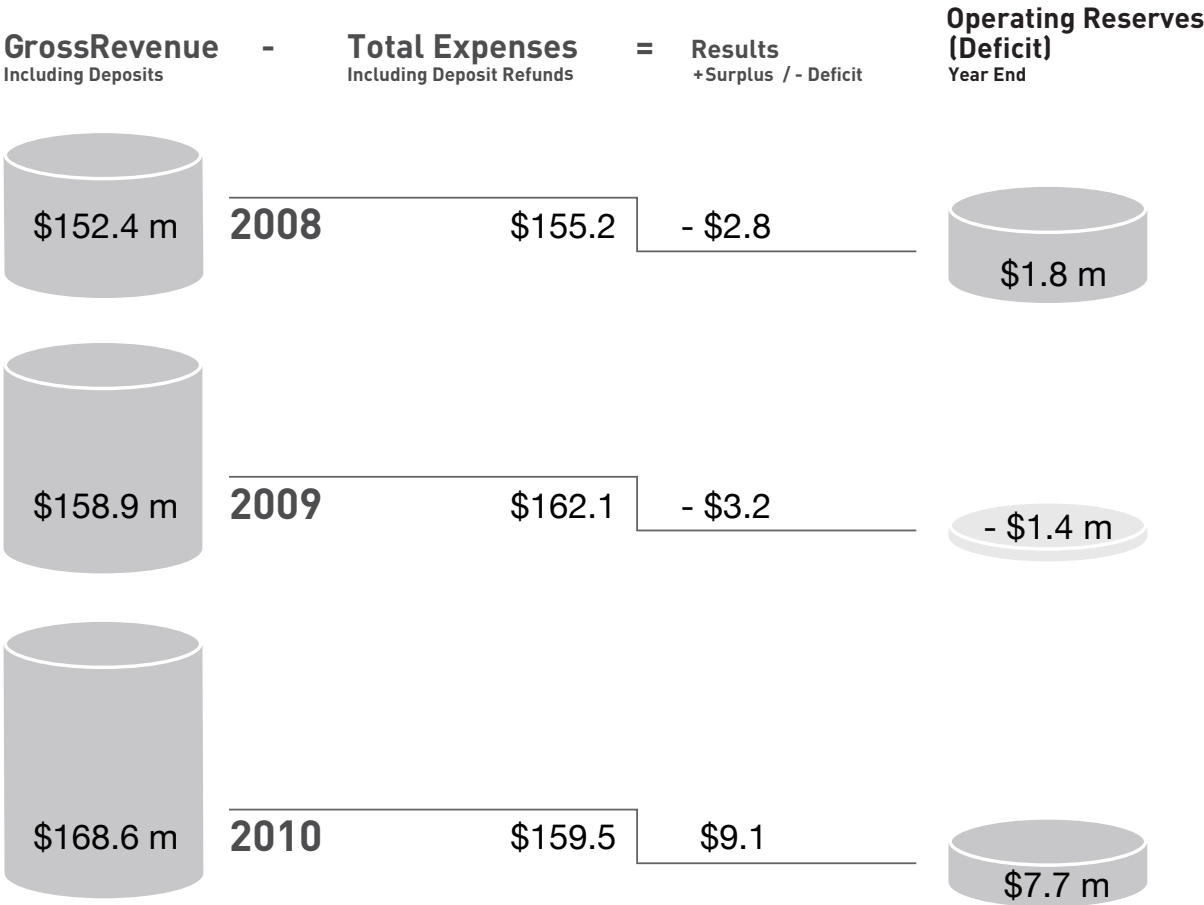
Management of Operating Reserves

Encorp's financial model requires a reasonable level of operating reserves to provide stability for the system. When the reserves rise above a reasonable amount, measures are taken to reduce them to the appropriate level.

As indicated in the chart, reserves were reduced and in fact depleted by the end of 2009.

In 2010 Encorp has been able to start restoring reserves to an appropriate level. These reserves have been used to fund system costs that may otherwise have been reflected in consumer prices.

Encorp will continue to manage operating reserves within an optimal, pre-determined range over a span of years.

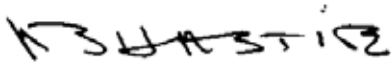


Management's Responsibility for Financial Reporting

The financial statements of Encorp Pacific (Canada) have been prepared by management in accordance with generally accepted accounting principles in Canada. Any financial information contained elsewhere in this report has been reviewed to ensure consistency with the financial statements.

Management is responsible for the integrity of the financial statements and has established systems of internal control to provide reasonable assurance that assets are safeguarded, transactions are properly authorized and financial statements are prepared in a timely manner.

Encorp Pacific (Canada) maintains a system of internal accounting and administrative controls. They are designed to test the adequacy and consistency of internal controls, practices and procedures. PricewaterhouseCoopers, the independent auditors appointed by the Board of Directors, have audited the financial statements of Encorp Pacific (Canada) in accordance with Canadian generally accepted auditing standards. The Auditors' Report outlines the scope of this independent audit and expresses an opinion on the financial statements of Encorp Pacific (Canada).



Neil Hastie
Chief Executive Officer



Bill Chan, CGA, MBA
Chief Financial Officer

April 23, 2011



Encorp Pacific (Canada)

Financial Statements
December 31, 2010

May 4, 2011

Independent Auditor's Report

To the Members of Encorp Pacific (Canada)

We have audited the accompanying financial statements of Encorp Pacific (Canada), which comprise the statement of financial position as at December 31, 2010 and the statements of operations, changes in net assets and cash flows for the year then ended, and the related notes including a summary of significant accounting policies.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Encorp Pacific (Canada) as at December 31, 2010 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants

"PricewaterhouseCoopers" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership, which is a member firm of PricewaterhouseCoopers International Limited, each member firm of which is a separate legal entity.

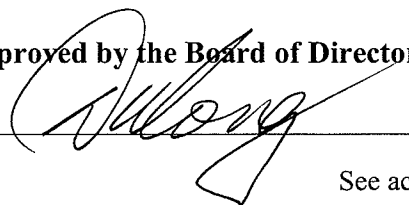
Encorp Pacific (Canada)

Statement of Financial Position

As at December 31, 2010

	2010 \$	2009 \$
Assets		
Current assets		
Cash and cash equivalents	15,625,272	8,045,307
Accounts receivable	6,597,418	4,808,032
Prepaid expenses and deposit	24,020	23,262
	22,246,710	12,876,601
Capital assets (note 4)	788,899	977,786
	23,035,609	13,854,387
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	7,873,887	7,586,260
Deferred revenue	6,953,700	7,530,223
Current portion of obligation under capital lease (note 6)	235,810	77,031
	15,063,397	15,193,514
Obligation under capital lease (note 6)	344,067	118,860
	15,407,464	15,312,374
Net assets		
Internally restricted reserve (note 5)	2,244,680	4,277,304
Unrestricted (note 5)	5,383,465	(5,735,291)
	7,628,145	(1,457,987)
	23,035,609	13,854,387
Commitments (note 7)		

Approved by the Board of Directors


Director


Director

See accompanying notes to financial statements.

Encorp Pacific (Canada)

Statement of Changes in Net Assets

For the year ended December 31, 2010

	<u>2010</u>		<u>2009</u>	
	Internally restricted reserve \$	Unrestricted \$	Total \$	Total \$
Balance - Beginning of year	4,277,304	(5,735,291)	(1,457,987)	1,766,204
Excess (deficiency) of revenue over expenses	-	9,086,132	9,086,132	(3,224,191)
Transfer from internally restricted reserve (note 5)	(2,032,624)	2,032,624	-	-
Balance - End of year	<u>2,244,680</u>	<u>5,383,465</u>	<u>7,628,145</u>	<u>(1,457,987)</u>

See accompanying notes to financial statements.

Encorp Pacific (Canada)

Statement of Operations

For the year ended December 31, 2010

	2010 \$	2009 \$
Revenue		
Deposits on containers	88,637,124	93,579,879
Deposit refunds	(73,511,315)	(76,680,933)
	15,125,809	16,898,946
Container recycling fees	55,541,226	45,986,753
Contract fees	10,721,017	8,983,465
Sale of recyclable materials	13,681,958	10,590,443
Other	133,666	139,291
	95,203,676	82,598,898
Direct operations expenses		
Handling fees	51,324,320	50,594,354
Depot operations	452,847	235,445
Transportation and processing fees	25,931,790	25,883,240
	77,708,957	76,713,039
Other expenses		
General and administrative	3,656,991	3,798,585
Consumer awareness	4,014,768	4,398,786
Amortization	580,898	538,761
Foreign exchange loss	155,930	373,918
	8,408,587	9,110,050
Excess (deficiency) of revenue over expenses	9,086,132	(3,224,191)

See accompanying notes to financial statements.

Encorp Pacific (Canada)

Statement of Cash Flows

For the year ended December 31, 2010

	2010 \$	2009 \$
Cash flows from operating activities		
Excess (deficiency) of revenue over expenses	9,086,132	(3,224,191)
Items not affecting cash		
Amortization	580,898	538,761
Gain on disposal of capital assets	(10,296)	-
	9,656,734	(2,685,430)
Changes in non-cash operating working capital		
Accounts receivable	(1,789,386)	(189,462)
Prepaid expenses and deposit	(758)	(1,377)
Accounts payable and accrued liabilities	287,627	953,935
Deferred revenue	(576,523)	1,139,909
	7,577,694	(782,425)
Cash flows from investing activities		
Purchase of capital assets	146,296	(594,853)
Proceeds from sale of capital assets	32,335	-
	178,631	(594,853)
Cash flows from financing activities		
Repayment of obligation under capital lease	(176,360)	(60,566)
Increase (decrease) in cash and cash equivalents	7,579,965	(1,437,844)
Cash and cash equivalents - Beginning of year	8,045,307	9,483,151
Cash and cash equivalents - End of year	15,625,272	8,045,307
Supplemental cash flow information		
Non-cash transactions		
Capital assets acquired under capital lease	552,635	233,709
Interest paid	28,354	10,381

See accompanying notes to financial statements.

Encorp Pacific (Canada)

Notes to Financial Statements

December 31, 2010

1 Operations

Encorp Pacific (Canada) (the "Corporation") was incorporated without share capital pursuant to Part II of the Canada Corporations Act on October 1, 1998. The Corporation is exempt from income taxes and carries on its operations without monetary gain to its members.

The Corporation has been appointed by participating brand owners to carry out its duties pursuant to the terms of the Recycling Regulation of the Environmental Management Act of British Columbia.

Under this appointment, the Corporation acts to develop a Stewardship Plan in the form prescribed by the Recycling Regulation for the collection and management of containers for and on behalf of the brand owners in an efficient, cost-effective, and socially and environmentally responsible manner. The appointment also allows the Corporation to establish charges for its services as required to generate fees sufficient to meet its current and future financial requirements, including deposit refunds and operating costs.

The objectives of the Corporation are to promote and facilitate the recycling of used beverage containers in British Columbia through education, public awareness and management of the Recycling Regulation. Although an excess or deficiency of revenue over expenses may occur on an annual basis, the Corporation's long-term goal is to operate on a cost recovery basis.

Under contract, the Corporation also provides material handling with respect to recycling of dairy containers and certain consumer electronics.

2 Significant accounting policies

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles, incorporating the following significant accounting policies:

Cash and cash equivalents

Cash and cash equivalents include cash and short-term investments with a maturity date of three months or less from the date of acquisition.

Revenue

Deposits on containers and container recycling fees are received from brand owners on each container sold in the province of BC. The Corporation records revenue from deposits on containers net of deposit refunds, and container recycling fees as services are provided in relation to its obligations under the Stewardship Plan.

Recyclable materials revenue is recorded when the containers are shipped to recyclers.

Contract fees are recorded when the services are provided.

Encorp Pacific (Canada)

Notes to Financial Statements

December 31, 2010

Deferred revenue

The Corporation defers revenue related to deposits and container recycling fees received prior to year-end for which the related deposit refunds, handling fees and transportation and processing fees will be paid for container returns subsequent to year-end. The amount deferred is estimated based on the industry average rate of recovery. The determination of such a deferral is subject to estimates that reflect management's determination of the most probable set of economic conditions, including the estimated turnaround time for consumers returning used beverage containers for refunds. The turnaround time is estimated to be 7.5 weeks.

Direct operations expenses and other expenses

Handling fees to depots and transportation and processing fees are recorded on the date the containers are collected by transporters. Other expenses are recorded as they are incurred.

Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the exchange rate prevailing at the balance sheet date. Exchange differences are included in income as they arise. Revenues and expenses denominated in foreign currencies are translated at the exchange rate prevailing at the transaction date.

Capital assets

The Corporation records capital assets at cost less accumulated amortization. Amortization is calculated as follows:

Office equipment	5 years straight-line
Computer hardware	3 years straight-line
Computer software	3 years straight-line
Leasehold improvements	3 - 5 years straight-line

In accordance with Section 4400 of the Canadian Institute of Chartered Accountants ("CICA") Handbook, the Corporation does not separately disclose the net assets invested in property, plant and equipment.

Leases

Leases are classified as either capital or operating leases. A lease that transfers substantially all of the benefits and risks incidental to ownership of the property is classified as a capital lease. At the inception of a capital lease, an asset and obligation are recorded at an amount equal to the present value of the lessee's minimum lease payments or the property's fair value at the beginning of the lease. All other leases are accounted for as operating leases and lease payments are expensed as incurred.

Encorp Pacific (Canada)

Notes to Financial Statements

December 31, 2010

Use of estimates

A precise determination of many assets and liabilities is dependent upon future events, and therefore, the preparation of financial statements requires management to make estimates and assumptions. These estimates affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. Areas requiring significant estimates include deferral of container deposits and container recycling fees received prior to the year-end for which the related deposit refunds, handling fees and transportation and processing fees will be paid subsequent to the year-end.

During the year, Encorp Pacific (Canada) became aware of new information relating to the estimated revenue of prior periods which resulted in a decrease of current year revenues of \$1,034,890.

Financial instruments

The Corporation applies the CICA Handbook Section 3855, *Financial Instruments - Recognition and Measurement*; Section 3861, *Financial Instruments - Disclosure and Presentation*; and Section 3865, *Hedges*. These sections provide comprehensive requirements for the recognition and measurement of financial instruments.

Under these standards, all financial assets and liabilities are classified into one of the following five categories: held-for-trading, held-to-maturity, loans and receivables, available-for-sale financial assets or other financial liabilities. All financial instruments are included on the statement of financial position and initially measured at fair market value. Subsequent measurement and recognition of changes in fair value of financial instruments depends on their initial classification. Held-for-trading financial investments are measured at fair value and all gains and losses are included in net income in the period in which they arise. Available-for-sale financial instruments are measured at fair value with revaluation gains and losses included in net assets. Loans and receivables, held-to-maturity financial investments and other financial liabilities are measured at amortized cost using the effective interest rate method.

The Corporation has classified its cash and cash equivalents and accounts receivable as loans and receivables. Accounts payable and accrued liabilities and obligation under capital lease are classified as other financial liabilities.

3 Change in accounting policies

In December 2010, the Accounting Standards Board ("AcSB") released new standards for private companies and not-for-profit organizations that will be effective for periods beginning on or after January 1, 2012. The Corporation will be required to adopt either Part 1 (International Financial Reporting Standards) or Part III (Accounting Standards for Not-for-Profit Organizations) of the CICA Handbook and has concluded that it will adopt Accounting Standards for Not-for-Profit Organizations effective January 1, 2011.

Encorp Pacific (Canada)

Notes to Financial Statements

December 31, 2010

4 Capital assets

	2010		2009	
	Cost	Accumulated amortization	Net	Net
	\$	\$	\$	\$
Office equipment	367,424	303,007	64,417	113,933
Computer hardware	1,498,606	899,017	599,589	540,541
Computer software	438,132	313,239	124,893	316,166
Leasehold improvements	122,266	122,266	-	7,146
	2,426,428	1,637,529	788,899	977,786

Capital assets with a cost of \$786,344 (2009 - \$233,709) and accumulated amortization of \$332,442 (2009 - \$71,246) are financed under capital lease.

	2010	2009
	\$	\$
Capital assets	788,899	977,786
Obligation under capital lease	(579,877)	(195,891)
	209,022	781,895

5 Internally restricted reserve and unrestricted balance

The Board of Directors has established an internally restricted reserve in recognition of the principle that the costs of recycling each container type are to be borne independent of other container types. The objective of the reserve is to defer the implementation of the container recycling fee on container types for which the current unredeemed deposits exceed the net costs of recycling. The reserve level is reviewed annually. The reserve may also be used to develop and implement strategies to improve recovery rates of these specific containers. As a result of the annual review, an amount of \$2,032,624 (2009 - \$1,444,714) was transferred from the reserve during the current year.

Encorp Pacific (Canada)

Notes to Financial Statements

December 31, 2010

6 Obligation under capital lease

Total minimum payments required under capital leases are as follows:

	\$
2011	259,613
2012	240,355
2013	<u>117,510</u>
	617,478
Less: Imputed interest (rates vary from 5% to 6%)	<u>37,601</u>
Present value of minimum capital lease payments	579,877
Less: Current portion	<u>235,810</u>
Long-term portion	<u>344,067</u>

Interest of \$28,354 (2009 - \$10,381) relating to capital lease obligations has been included in depot operations and general and administrative expense.

7 Commitments

The Corporation has entered into operating leases for its premises. Minimum lease payments for the year ending December 31, 2011 are \$238,291.

8 Fair value of financial instruments

The carrying values of cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities approximate their fair values due to the relatively short period to maturity of the instruments. The obligation under capital lease is of a long-term nature and, as such, is impacted by changes in market yields, which can result in differences between carrying value and market value. Management estimates that these differences are not material and the carrying amount approximates their fair value.

Encorp Pacific (Canada)

Notes to Financial Statements

December 31, 2010

9 Related parties

The Corporation owns 100% of Encorp Pacific Inc. ("EPI"), an incorporated company. EPI is inactive and its balance sheet is as follows:

	\$
Cash	2
Shareholder's equity	2

During the year, the Corporation paid \$119,055 (2009 - \$132,197) in Board expenses, which comprise fees for directors and reimbursement of expenses.

10 Capital disclosures

The Corporation defines its capital as the amounts included in its net asset balances.

When managing its net assets, the Corporation's objective is to safeguard its ability to continue as a going concern in order to fulfill its mandate as set out in note 1.

While its net assets are not subject to external restrictions, the Corporation has certain Board imposed restrictions on the use of its net assets as indicated in note 5. The Corporation has internal control processes to ensure that these internally imposed restrictions are met prior to the utilization of these net assets.

The Corporation sets the amount of net asset balances in proportion to risk, manages the net asset structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets.

11 Currency, interest rate and credit risk management

Foreign currency risk

The Corporation is exposed to foreign exchange risk through its cash, accounts receivable and accounts payable that arise on sales of recyclable materials denominated in US dollars. At December 31, 2010, the net US dollar exposure on cash, accounts receivable and accounts payable was US\$1,995,988 (2009 - US\$1,334,249).

Interest rate risk

The Corporation is not exposed to significant interest rate risk.

Credit risk

Accounts receivable consist of amounts outstanding from brand owners and material recyclers. The Corporation monitors the creditworthiness of brand owners and material recyclers to minimize the risk of loss.

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