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Encorp Pacific (Canada)
2005 Annual Report

BANK HSBC Bank Canada

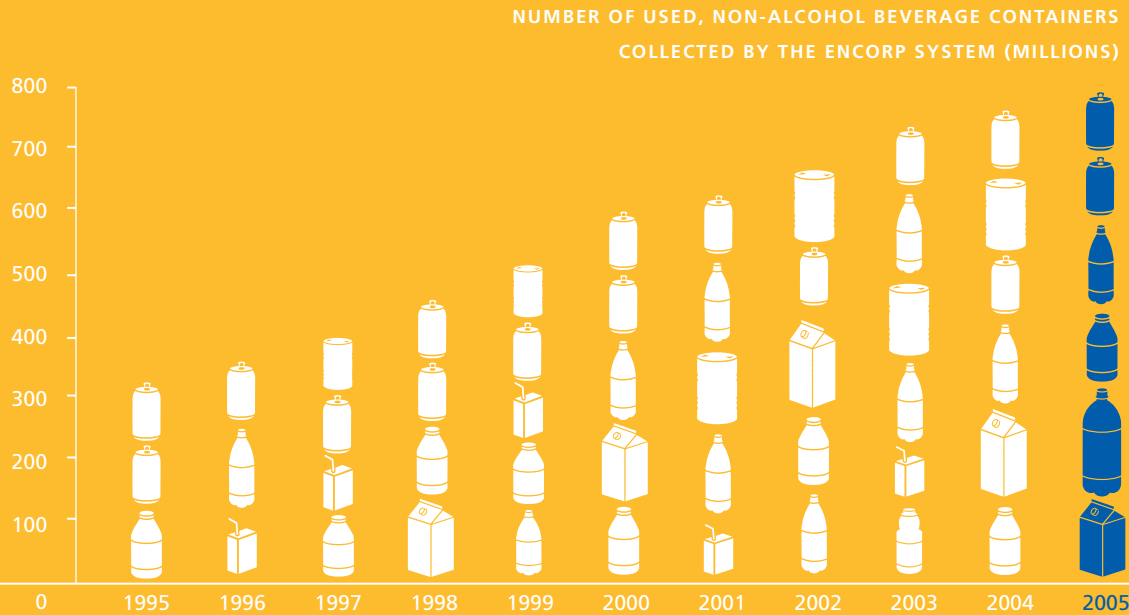
LEGAL FIRM Fasken Martineau DuMoulin LLP







AUDITORS KPMG LLP

ECO AUDIT ENVIRONMENTAL BENEFITS STATEMENT

The Encorp Annual Report is printed with vegetable inks on Save-A-Tree paper; 100% post-consumer recycled, process chlorine free. By choosing 100% post-consumer recycled fibre instead of virgin paper for this printed material the following savings to our natural resources were realized:
TREES SAVED: 7 WOOD SAVED (LBS.): 4,271 WATER SAVED (GALS.): 6,280 LANDFILL REDUCED (LBS.): 660 NET GREENHOUSE EMISSIONS REDUCED (LBS.): 1,292 ENERGY REDUCED (BTU) (000): 8,501

In 2005, the Encorp system collected and recycled 772 million, non-alcohol beverage containers, 18 million more than 2004



METRIC TONNES OF MATERIAL RECYCLED		TYPE	CONTAINERS SOLD		CONTAINERS RECOVERED		% RECOVERY RATE	
2005	2004		2005	2004	2005	2004	2005	2004
5,225	5,143	 Aluminum	462,015,529	449,747,827	374,391,254	377,064,367	81.0	83.8
11,321	9,712	 Plastic	369,913,204	331,501,570	266,509,849	243,233,881	72.0	73.4
2,696	2,130	 Polycoat	152,841,148	151,901,553	83,335,160	85,308,426	54.5	56.2
10,093	10,982	 Glass	56,907,588	59,023,774	39,284,557	39,252,464	69.0	66.5
308	271	 Other Metals	6,349,740	5,913,309	3,761,262	3,115,412	59.2	52.7
		 Pouches	1,029,972	8,950,310	4,852,463	3,764,547	47.4	42.1
28,238	26,043	TOTALS	1,058,256,791	1,012,302,292	772,134,545	754,182,592	73.0	74.5
+4.98%		CHANGE	Note: Does not include alcohol containers.					

We are pleased to present our Annual Report for 2005, the sixth report we have issued.




Neil Hastie
President & CEO


Dan Wong
Board Chair

THE PEOPLE THAT MAKE IT WORK

Annual reports often focus on accounts and statistics, financial or otherwise. Ours does too! But a more interesting story is about the people who make beverage container recycling such a success in British Columbia. And it is a success when our recycling rate of 73% is evaluated against the 45% achieved by the highly regarded municipally-operated residential recycling program in the Greater Vancouver Regional District (GVRD).

On the next few pages you will be introduced to Louis Spronken, Dave Sampson, and Larry Galvin; some of the people who make recycling work in the mid-Vancouver Island communities of Duncan and Nanaimo. Their stories resound in all regions of British Columbia. They’re stories of business opportunity and environmental achievement joining to create economic activity and the fulfillment of stewardship responsibility for beverage packaging.

NEW CHALLENGES

As we reported in our 2004 Annual Report, Encorp’s primary system of 170 bottle and Return-It™ Depots has recently experienced a slowing in the year over year growth in container recovery. This is similar to what is being experienced in other provinces – but it is unsatisfactory to us and challenges us to be better. In response, we have embarked on a conscientious

effort to broaden our understanding of overall recycling trends and, specific to the GVRD which is our largest region, a more precise understanding of how and why our containers end up in the garbage stream instead of being recycled.

Our preliminary assessment is that, while our recycling rate is substantially better than the general rate, more than 60% of containers going into the garbage stream are from industrial, commercial and institutional consumers. We are devising ways to reach into this sector and the multi-family residential sector and retrieve more containers. The continued expansion, except in the City of Vancouver, of our depot network and the dedicated effort by all owner-operators to improve their locations and customer services is keeping pace with the needs of the single family residential sector.

POLICY ON OPERATING RESERVES

Our goal is to maintain reserves in the range of \$8 to \$12 million, which enables us to meet our monthly cash flow requirements and is prudent for an enterprise of our scale. In 2005, the simultaneous impact of revenues received from record high commodity prices for aluminum and plastic combined with robust sales by our brandowners caused our reserves to swell to \$19 million. We have responded by making three sequential reductions in the container recycling fees we charge to brandowners

with the effect, on an annualized basis, of reducing our revenues by an aggregate of \$10 million. We are confident that, in the next 18 months, these measures will bring our reserves in line with our target levels.

SOLID PERFORMANCE

While Encorp has concentrated on delivering solid performance, the Consumers Association of Canada appears to have the opposite intent. By initiating its proposed class action suit in 2005, it questions the legality of what the Government of British Columbia intended when it created, by regulation, a system of industry product stewardship that is the envy of other jurisdictions — a system it validates each year by reviewing Encorp’s financial operation. In January 2006, we applied to the Supreme Court of BC for summary dismissal of this unwarranted action. In a judgement issued on June 2, 2006, Madame Justice Russell of the Supreme Court of British Columbia agreed with Encorp and the other brandowners who were defendants and dismissed in their entirety all of the claims of the Consumers Association of Canada. This decision completely supports Encorp’s system and practices.

We are confident that the 750 people who make the Encorp system work will rise to all the challenges ahead. On behalf of the Encorp Board of Directors, management and staff, we want to thank them for their entrepreneurial spirit and dedication.



The people who make the Encorp system work.





A busy customer counter at the Fraser Valley Bottle & Return-It™ Depot.



The depot network is the backbone of the Encorp beverage container collection system. In the past 10 years the percentage of non-alcohol beverage containers returned to depots rather than to grocery stores has increased from around 40% to more than 85%. Depots have demonstrated their ability to provide a high level of speed and efficiency in dealing with large numbers of containers returned by a growing stream of customers.

An additional six depots were added to the Encorp system in 2005 bringing the total to 169. Many depots also underwent extensive redesign and renovation in the past year to provide faster service for customers and greater handling efficiencies for the depot operator.

Locations where new depots opened in 2005 are:

- Murrayville (Langley)
- Pitt Meadows
- Richmond
- Surrey
- Terrace
- Vancouver

Depots which have upgraded and improved their facilities include:

- Barnet Market – **BURNABY**
- Blue Mountain – **COQUITLAM**
- Cloverdale – **SURREY**
- Cowichan Valley – **DUNCAN**
- Lee's – **BURNABY**
- North Shore – **NORTH VANCOUVER CITY**
- Semiahmoo – **SURREY**

Encorp's depot operations staff is instrumental in assisting depots in developing new layouts and operating procedures to improve efficiency and customer service. Depots can also access special funding assistance from Encorp to make facility improvements.

The Fraser Valley Bottle and Return-It™ Depot which opened in 2005 features many of the new ideas that have been developed over the past 10 years. These include pass-through windows for containers and conveyor belts for ease of moving boxed containers.





Transportation of containers from depots to processing sites is a significant cost component of the Encorp system. As for many businesses, and individuals, the rising costs of fuel have had a major impact on overall transportation expenditures.

Encorp’s transportation system is comprised of both general freight companies and dedicated Encorp transporters. Encorp has accepted frequent changes in costs from freight companies who have been adjusting their fuel surcharge to reflect fluctuations in the market price of diesel fuel.

For dedicated Encorp transport contractors a fuel subsidy has been initiated to maintain a level of parity for them with outside freight companies.

To further reduce transportation costs there have been upgrades to baling equipment at companies which process containers for Encorp. This has achieved greater load factors on trailers, and, in turn, a reduction in loads needed to move containers to market.

A critical component of the Encorp system is that of quality control. Sample loads of containers from depots and major grocers are audited to ensure that both the number and type of container in each bag is accurate. Since depots are paid based on a set quantity and type in each bag this process insures accurate payments from Encorp. In addition, checking for contamination (i.e. the wrong material type) ensures that Encorp can receive the maximum value for the specific commodity.

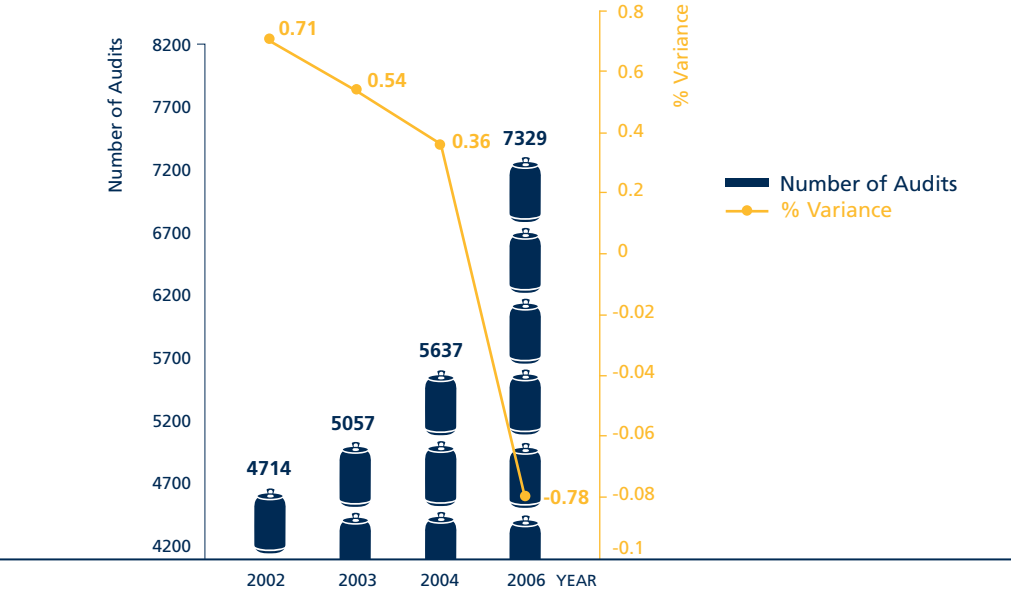
In 2005, the Quality Assurance Center completed the final steps towards having all reports computer-generated rather than through manual recording. The human factor, which caused depot operators to question the accuracy of reporting, has been significantly reduced.

These upgrades have also enabled QA staff to be more efficient and have given QA management greater flexibility in assigning various tasks.

Depot accuracy has shown improvement each year with the average shortage from fully correct counts declining steadily. This has allowed the acceptable margin for shortages to be reduced, as of January 2005, from 3% to 2%.

The problem for depot accuracy now is that, in 2005, depot errors were in the opposite direction, instead

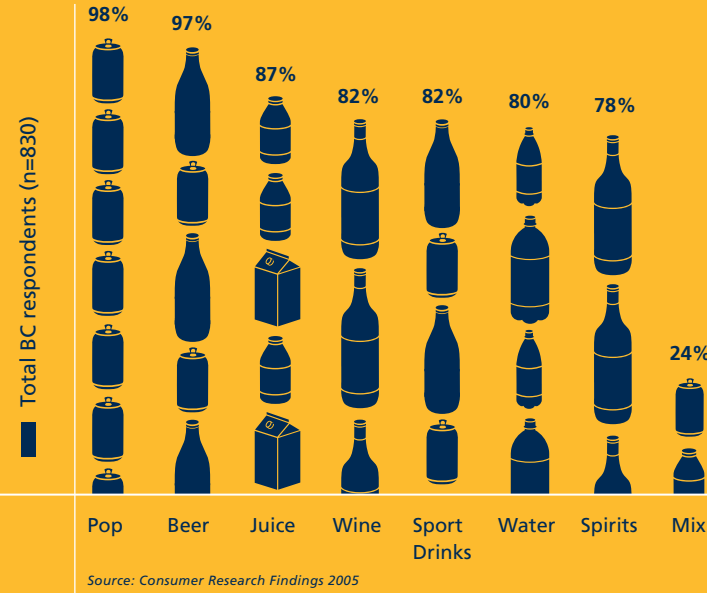
AVERAGE DEPOT PERFORMANCE FROM 2003 TO 2005



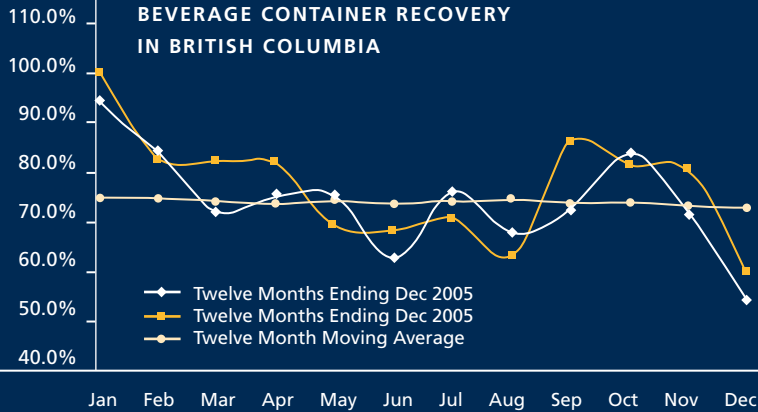
of putting fewer than the required containers in a bag, depots were putting in too many. This result is negative for depots in that they would be paid for fewer containers than they actually redeemed and Encorp’s recovery numbers would be affected. The source of this problem seems to be the number of depots which have undergone ownership changes and a consequent introduction of new staff. To correct this problem, Encorp has instituted a training program at the QA centre for all new depot owners and operators.

AWARENESS OF TYPES OF BEVERAGES
ACCEPTED FOR DEPOSIT

QUESTION ASKED: When it comes to different types of beverages that can be returned for deposit, please tell me whether or not you think this type of beverage receives a deposit.



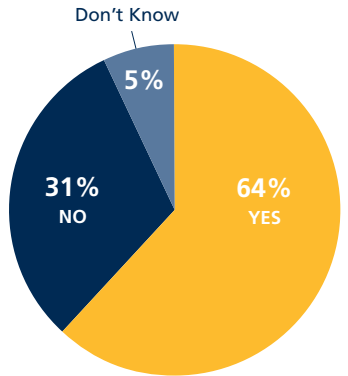
BEVERAGE CONTAINER RECOVERY
IN BRITISH COLUMBIA



RECYCLING DEPOT LOCATED
CONVENIENTLY TO HOME

“Do you currently have a bottle depot that is conveniently located close to your home?”

Total BC respondents



There are many questions to be answered before planning and implementation of marketing initiatives can begin.

- Who consumes which type of beverage?
- Which type of container is involved?
- When and where do they drink the beverage?
- How old and what gender are they?
- Where do they live and what do they do?
- And the most important question of all: How do they recycle? If at all.

To find the answers to these questions Encorp uses information provided by a multitude of sources.

Data generated by Encorp’s operations is supplied on a monthly basis including beverage sales by container type, container recovery by type, as well as information regarding the area of the province where they were collected.

Encorp reaches 98% of the population in British Columbia with our message and we collect almost 75% of the beverage containers sold in the province. How can we top that? That’s what Encorp marketers ask themselves every day. They want to be sure they have the right answers in a constantly changing marketplace.

Every November, Encorp carefully analyzes the previous ten to twelve months of marketing initiatives to determine what worked, what did not, what to keep and improve upon, and what to discontinue. A detailed plan is prepared for the next twelve months always with one goal in mind: to increase the recovery and recycling rates of used beverage containers.

There are many things to take into consideration before completing a thorough plan.

- Initiatives must be happening year round to ensure “top of mind awareness” with the target markets.
- All initiatives must be carefully planned so that they reach the people who need to be reached, at the most opportune time, through the most effective form of media.

There are so many media, timing and message choices it is like trying to pick a new pair of shoes in a mall full of shoe stores.

Encorp uses a variety of media information sources such as TV network ratings, PMB data and newspaper reach and impression information. Reviews are made of other provinces’ reported data, other countries’ reports, and even other types of products’ recycling rates.



DEPOT POSTER

Statistical information is gathered from provincial and municipal sources as well as Statistics Canada. Patterns, trends and projections are examined to aid in the creation of a full twelve month implementation plan designed to result in the collection of as many empty beverage containers as possible.

Each month the plan is examined to determine if it is as relevant and effective as the day it was created. Adjustments are made as needed. The result is one of the best recycling programs in North America.

CAMPAIGN		# SPOTS	IMPRESSIONS
General (all containers)	Standard	363	9,983,886
	Added Value	494	9,936,828
Liquor	Standard	410	14,090,045
	Added Value	203	4,039,398
Gable	Standard	163	6,005,081
	Added Value	63	1,281,192
Single Serve Glass	Standard	181	6,991,103
	Added Value	190	2,201,100
Single Serve PET	Standard	548	10,856,879
	Added Value	324	6,531,954
Tetra	Standard	233	7,384,457
	Added Value	85	2,097,876
Pouches	Standard	139	6,469,503
	Added Value	77	2,280,036
PSAs	Added Value	24,951	100,712,922
Grand Total		28,424	190,862,260

Encorp continues to strive to improve its recycling initiatives in many ways, from launching new consumer awareness campaigns to improving customer service at depots. Improvement also involves researching new ideas and developing specific programs to meet the needs identified.

In the Greater Vancouver region, over 50% of residential housing is in multi-family or high-density dwellings; in the City of Vancouver this percentage is even higher and growing. This creates a challenge for Encorp since these areas are typically costly in terms of lease rates and taxes and are often difficult places in which to locate a depot due to zoning bylaws or proximity to residents.

The recycling challenge is also complicated by the fact that people living in high rise towers typically do not have space available to store used beverage containers for recycling. The lack of convenient recycling options in multi-family dwellings, and lack of nearby depots, results in poor and declining recycling rates in these areas.

Encorp is now actively looking at other recycling collection points to complement the existing depot network.

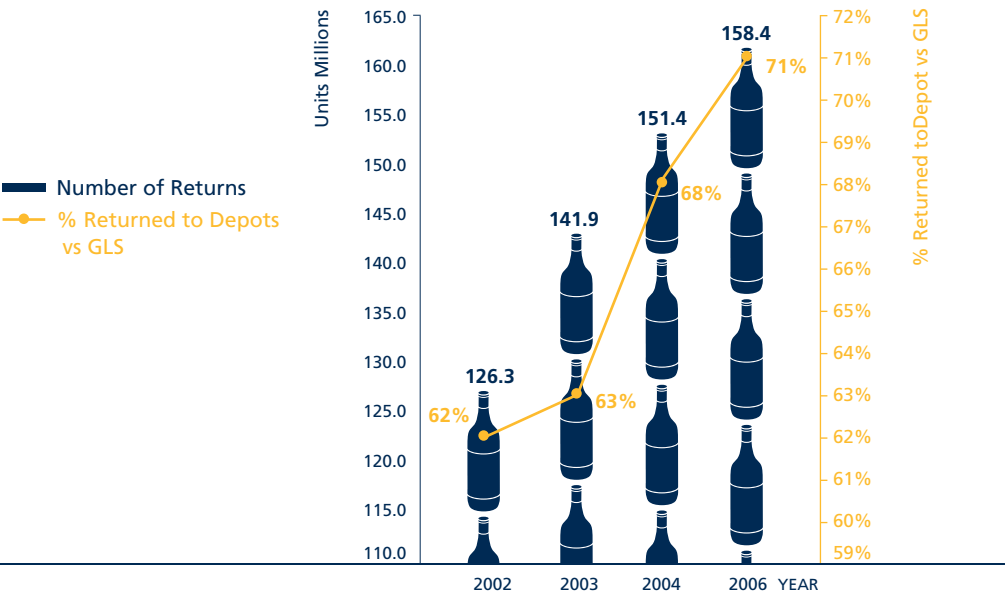
Some examples:

- Encorp has partnered with a company that has found a niche market providing the hospitality industry with a recycling solution for their used beverage containers. This company offers full service support by providing restaurant facilities with totes and lock-up bins, collecting, cleaning and sanitizing the bins on a regular basis, and providing the restaurant with a detailed summary of containers collected and recycled.
- Encorp is also working with a national charitable organization looking at siting a depot in the Vancouver downtown core through a collaborative effort with a Vancouver West End community group and Vancouver city council. This organization is trying to develop a network of drop-off bins in the downtown Vancouver core.



Lock-up bin for commercial use.

LDB CONTAINER RETURNS



BRITISH COLUMBIA LIQUOR DISTRIBUTION BRANCH

In 2005, Encorp Pacific completed its fourth year of a service provider contract with the BCLDB under which Encorp-authorized depots accept wine, spirits, cooler and non-refillable beer bottles and pay the full deposit refund. Encorp transporters also collect used alcohol beverage containers from Government Liquor Stores and ensure that all collected containers are being recycled.

Encorp enters into service provider contracts where such contracts improve customer benefits, result in operating efficiencies and support the industry stewardship model. A key requirement is that there is no cross-subsidy against existing brandowners.

In 2005, the Encorp system collected and recycled 154,890,229 used alcohol beverage containers weighing over 52 million kilograms. Nearly 71% of these containers were returned to Encorp Bottle and Return-It™ Depots, an increase of 3%, while the total returned to Government Liquor Stores decreased to about 24%. The balance is returned through commercial outlets.

A basic objective of the Encorp system is to minimize the impact on consumer prices.

WHERE THE MONEY COMES FROM: REVENUES

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

SALE OF COLLECTED MATERIALS – All the collected aluminum, plastic, polycoat, bi-metal and glass collected is sold on the open market. Revenues vary from a high of about \$2,000 per tonne for aluminum to zero for glass.

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

OTHER FEES – Revenues from service provider contracts.

WHERE THE MONEY IS SPENT: EXPENSES

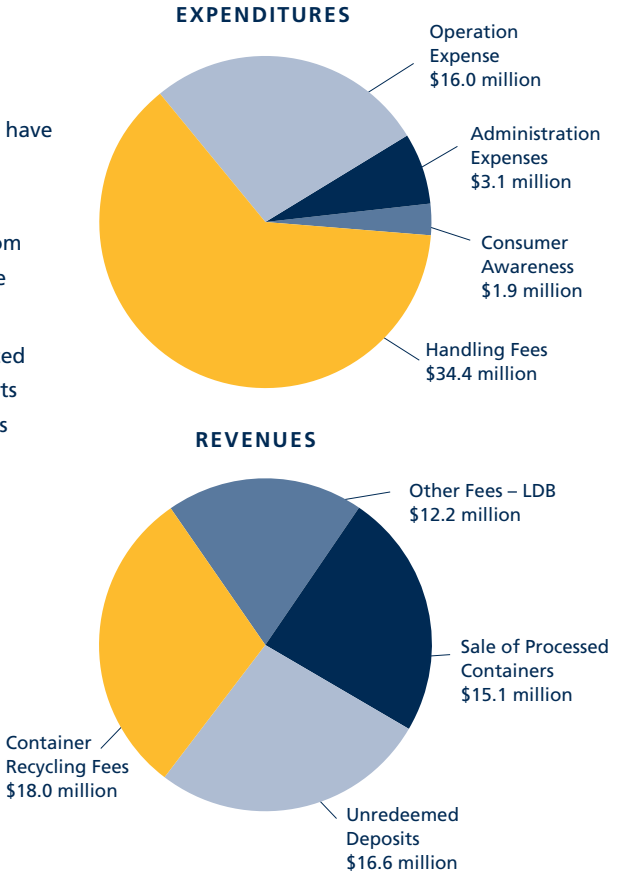
DEPOSIT REFUNDS – Paid to depots and grocery retailers to reimburse them for the deposits they have refunded to customers.

HANDLING FEES – Handling fees paid to depots and grocery retailers for collecting containers from the public comprise the largest single cost for the Encorp system.

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

CONSUMER EDUCATION AND AWARENESS – Programs which encourage consumers to return containers for recycling.

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

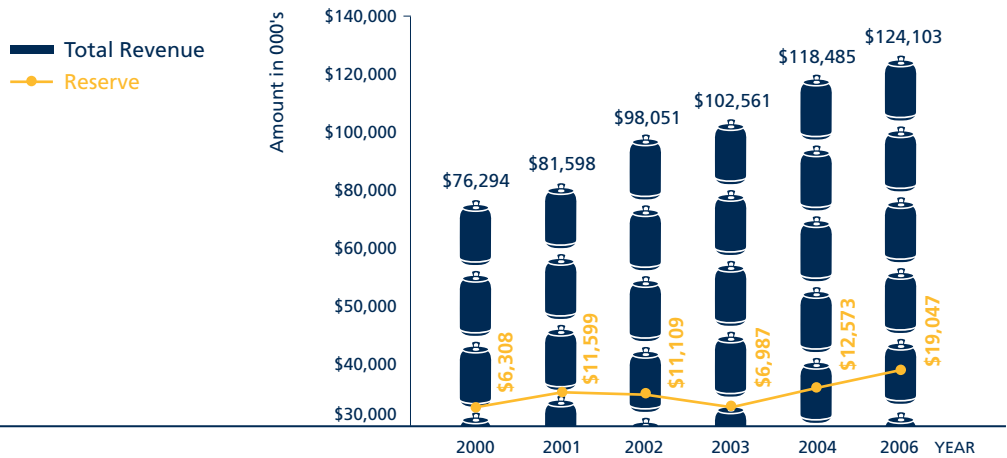


Operating Reserves

	2004 BALANCE	2005* OPERATING	2005 BALANCE	2006 OPERATING BUDGET	2006 BALANCE
Operating Reserve	\$ 3,150,000	\$ 6,140,000	\$ 9,290,000	\$ (4,794,000)	\$ 4,496,000
Restricted Reserve	4,810,000	414,000	5,224,000	4,000	5,228,000
LDB Reserve	4,613,000	–	4,613,000	(698,000)	3,915,000
Total Reserve	\$ 12,573,000	\$ 6,554,000	\$ 19,127,000	\$ (5,488,000)	\$ 13,639,000

* Based on Draft Financial Statements

ENCORP PACIFIC (CANADA) TOTAL REVENUE VS RESERVES



As the clearing house for the funds required to reimburse consumer deposits and pay for the costs to operate the system, Encorp maintains operating reserves. The objective for these reserves, over a span of years, is that they will remain fairly constant at determined levels. When reserves for a specific container type build up beyond these levels measures are taken to bring them back into line. These measures may include a reduction in the Container Recycling Fee (CRF) or an increase in the activities designed to improve the recovery rate.

In 2005, Encorp continued with this policy and made changes in the CRF and initiated new activities as required.

An example of the need for operating reserves for each container type occurred in 2005. Bag-in-box containers were no longer used for non-alcohol beverages in 2005 so no sales were reported nor were any fees paid to Encorp during the year. However, bag-in-box containers continued to be returned throughout the year and the funds available in the Operating Reserve were used to pay deposits, handling fees and transportation costs. Bag-in-box containers will continue to be accepted for refund indefinitely at all Encorp-authorized Bottle and Return-It™ Depots.

INTERNALLY RESTRICTED RESERVES

In 2002, the Encorp Board of Directors agreed to establish an Internally Restricted Reserve for those containers with a low recovery rate. The use of this reserve is restricted to improving the recovery rate for these containers and for moderating Container Recycling Fees as the recovery rate for them improves. Reserves are reviewed annually by the Audit Committee and the Board of Directors. Detailed information on how total reserves for all containers changed in 2005 is contained in the sidebar chart.

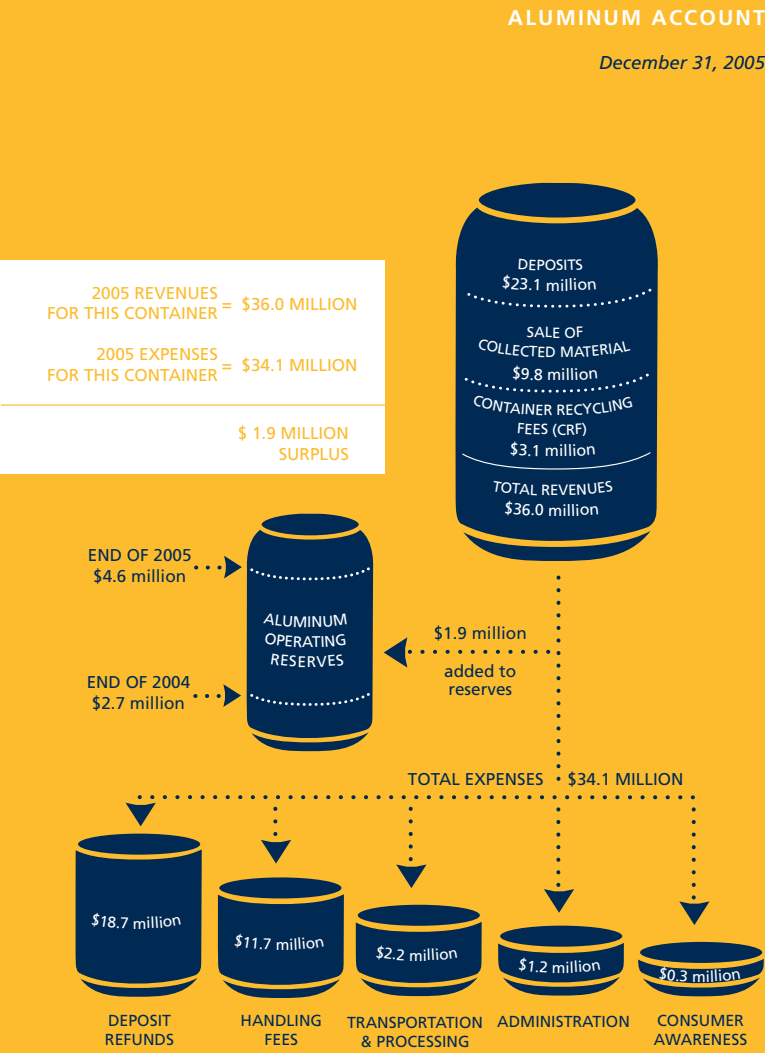
CONTAINER RECYCLING FEE

The following table shows CRF changes over time for major container categories.†

CONTAINER TYPE	CRF included in retail price until spring 2000				CRF shown separately by most grocery retailers after spring 2000			
	1999	2000	2001	2002*	2002**	2003*	2004*	2005
Aluminum cans	0¢	1¢	1¢	1¢	0¢	0¢	1¢	1¢
Plastic up to 500ml	0¢	1¢	1¢	1¢	1¢	1¢	3¢	3¢
Plastic 501ml to 1L	1¢	2¢	2¢	1¢	1¢	1¢	3¢	3¢
Plastic over 1L	4¢	5¢	5¢	5¢	4¢	4¢	4¢	4¢
Glass up to 1L	3¢	3¢	3¢	3¢	3¢	3¢	4¢	4¢
Glass over 1L	7¢	7¢	7¢	5¢	5¢	5¢	5¢	5¢
Drink box up to 500ml	N/A	0¢	0¢	0¢	0¢	0¢	0¢	0¢
Drink box 500ml to 1L	N/A	0¢	1¢	2¢	2¢	3¢	4¢	4¢
Gable top up to 500ml	N/A	0¢	0¢	0¢	0¢	0¢	0¢	0¢
Gable top 501ml to 1L	N/A	0¢	1¢	1¢	1¢	1¢	0¢	0¢
Gable top over 1L	N/A	0¢	0¢	0¢	0¢	0¢	0¢	0¢
Bi-metal less than 1L	N/A	0¢	0¢	0¢	0¢	0¢	0¢	0¢
Bi-metal over 1L	4¢	4¢	2¢	0¢	0¢	0¢	0¢	0¢
Bag-in-a-box over 1L	4¢	4¢	4¢	0¢	0¢	0¢	0¢	0¢

Containers up to and including 1L – .05 deposit Container over 1L – .20 deposit *February 1 **July 1
†A complete list of current CRF amounts is available on our website – www.encorp.ca

Operating Reserves





ENCORP PACIFIC (CANADA) BOARD OF DIRECTORS 2005

L to R Neil Antymis, Janice Harrington, Justin Sherwood, Neil Hastie, Liisa O'Hara, Larry Brookes, Dan Wong, Dale Parker, David Ryzebol

GOVERNANCE PRACTICE

Encorp governance practices are based on the guidelines produced by the Toronto Stock Exchange for publicly listed companies in Canada. The structure of Encorp Pacific, in particular its not-for-profit status, mean that a number of the guidelines are not applicable but fundamental principles of the guidelines are followed. These include:

- That the Board explicitly assumes responsibility for the stewardship of the company including strategic planning, identifying risks, appointing senior management and planning for succession, assuming responsibility for a corporate communications policy and responsibility for internal controls.
- That the Board implements a process assessing its effectiveness and that of its committees and individual directors.
- That the Board provides orientation and education for new recruits to the Board and regularly reviews directors’ compensation.
- That the Board explicitly assumes responsibility for developing the company’s approach to corporate governance issues.

- That the Board, together with the CEO, develops position descriptions for its members and for the CEO and approves or develops corporate objectives for the Board and the CEO.
- That the Board has structures and procedures that enable it to function independently of management.
- That the Board has an Audit Committee consisting of non-management Directors.

BOARD

In keeping with the above guidelines, and its role as an Industry Product Stewardship company, Encorp places great emphasis on its governance model in order to achieve high standards of accountability and transparency.

The Board is charged with determining the company’s strategy and policies, setting objectives for the CEO, approving budgets and fees and discharging its fiduciary obligations to the brandowners and other stakeholder groups. It provides oversight of Encorp’s operations through quarterly board meetings, an annual strategic planning session and regular committee meetings.

ACCOUNTABILITY

A fundamental part of our commitment to accountability is a Board Manual for Directors prepared for Encorp by one of Canada’s leading experts on corporate and not-for-profit governance. The manual covers such key items as terms of reference for the Board, the Chair, Directors and the CEO, and a Code of Conduct for Directors including conflict of interest guidelines. The manual also sets out how committee memberships are to be established, lays 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. Each year, Directors complete a written Board assessment whose results are evaluated and reported to the Board through the Governance Committee.

TRANSPARENCY

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

COMMITTEES

There are four Board committees:

AUDIT – which is charged with overseeing financial reporting, assessing the company’s risk and control environment and evaluating internal control and the independent audit processes.

HUMAN RESOURCES AND COMPENSATION – which 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 – which has a public duty and a trust obligation with respect to the purposes, objects, structure and makeup of the company and its Stewardship Plan. It is also the committee which includes a non-Board member in the person of the Chair of the Advisory Committee.

NOMINATING – which is tasked with developing criteria which the Board may consider in making appointments to the Board and to the Advisory Committee. (see below) The Committee works to ensure that the Board has an appropriate balance of Director skill sets and experience.

NAME	TITLE	ENCORP AFFILIATION	COMMITTEES
Dan Wong / CHAIR	President <i>D. Wong & Associates Public Affairs</i>	Juice Council of British Columbia	Audit Compensation Governance
Neil Antymis	Director, Environmental Affairs <i>The Pepsi Bottling Group (Canada) Co.</i>	Refreshments Canada	Audit Compensation
Larry Brookes	Vice President Industrial Operations <i>Danone Waters of Canada</i>	British Columbia Bottled Water Association	Audit Nominating
Janice Harrington	Manager of Public Affairs – Western Canada <i>Coca-Cola Bottling Company</i>	Refreshments Canada	Governance Nominating
Neil Hastie	President and CEO <i>Encorp Pacific (Canada)</i>	Inside director	Nominating
Liisa O'Hara	Commissioner, <i>British Columbia Utilities Commission</i>	Unrelated director	Audit Nominating
Dale Parker	Chairman <i>Pacific Parkinsons Research Institute</i>	Unrelated director	Compensation Governance
David Ryzebol	Vice President Public Relations and Government Affairs <i>Canada Safeway Limited</i>	Canadian Council of Grocery Distributors	Compensation Nominating
Justin Sherwood	Vice President, Western Region <i>Canadian Council of Grocery Distributors</i>	Canadian Council of Grocery Distributors	Governance

Advisory Committee 2005

2005 Annual Report to the Board of Directors

The Encorp Pacific (Canada) governance structure includes an Advisory Committee consisting of stakeholder representatives from local governments, environmental organizations, institutions, small brandowners, non-profit organizations and depots. The Advisory Committee controls its own membership by recommending new and replacement members to the Board’s Nominating Committee.

The Advisory Committee met twice in 2005 to review and comment on the budget, financial statements and consumer awareness campaigns. The Committee also held a special workshop to discuss the slowing of aluminum and plastic container returns in the GVRD, specifically in the City of Vancouver, and made a number of recommendations to the Board. The Committee is empowered through Encorp’s bylaws to place motions directly on the Board’s agenda and to require a response from the Board.

In addition, the Committee is taking a key role in the public consultation process in the review of the revised Stewardship Plan as required by the new provincial Recycling Regulation.

Respectfully submitted,



Al Lynch

Chair Advisory Committee

- Al Lynch (Chair)

Wally Erickson

Ken Lyotier

Russell Moore

Mondee Redman

Brenda Southam

Andy Telfer

Reinhard Trautmann

Mark Von Schellwitz

Catarina Wong

Natalie Zigarlick
- North Shore Recycling System

Simon Fraser University

United We Can Bottle Depot

Consultant

Burnaby School District

BC Bottle Depot Association

Independent

Regional District of Central Kootenay

Canadian Restaurant and Food Services Association

Core-Mark International

Recycling Council of BC

Brandowners Represented by Encorp

3 D Distribution Canada Ltd. 561572 B.C. Ltd. d/b H2O FOR YOU 7-11 Canada A. Bosa & Co. Ltd. A. Lassonde Inc. Acklands - Grainger Inc. Albi Beverages Division of Triton Marine Group Alfresh Beverages Canada Corp. Allcity Importers Ltd. Amari Enterprises Inc. Anchor Foods International Ltd. Anco Enterprises Limited AquaUno Beverage Corp. Arctic Chiller Ltd. Arla Foods Inc. Avalon Dairy Ltd. Avani Water Corporation Aviara Sales Inc. Binner Marketing & Sales Inc. Bioforce Canada Inc. Blackwell Dairy Farm Inc. Blue Spike Beverages Inc. Bottle Green Drinks Co. Canada Inc. Bremner Foods Ltd. Bridge Brand Food Services Ltd. Buy-Low Foods Ltd. C.A.M. Diversified Trading International Ltd. Calkins & Burke Limited Campbell Soup Company of Canada Canada Pure Water Co. Ltd. Canada Safeway Limited Canada Youth Orange Network (CYONI) Canadian Choice Wholesalers Ltd. Canda Enterprise Co. Ltd. Central Boeki Canada Ltd. Chilliwack Water Store Ltd. CM Trading Co., Ltd. Coca-Cola Bottling Ltd. Concord Sales Ltd. Continental Importers Ltd. Continental Packaging Ltd. Core-Mark International Inc. Corinthian Distributors Ltd. Costco Wholesale Cott Beverages Canada	Culligan Private Reserve D Dutchmen Dairy Ltd. Da Hua Food Manufacturing Co. Danone Naya Waters Inc. Danone Waters of Canada Dattani Wholesalers (a Div. of Dattani Foods Ltd.) Di Ioia Brothers Inc. (Moozoo) Diamond Springs Water Co. Distribution Missum Inc. Dole Foods of Canada Ltd. Double D Beverage Co. Drinkawater Sales Ltd. Edoko Food Importers Ltd. Elco Fine Foods Inc. Elko Developments Ltd. Eurobubbles Canada Inc. Falesca Importing Ltd. Far East North America Food Ltd. Far-Met Importers Ltd. Federated Cooperatives Ltd. Flexx Sports Equipment Ltd. Fluid Beverage Corporation Fok’s Trading (Canada) Ltd. Fountain Drinks (Canada) Co. Ltd. Fukuda Trading Co. Ltd. Gagan Foods International Ltd. Garland International Holdings (Canada) Ltd. Garrod Food Brokers Ltd Glacierwind Specialties Global H2O Resources Inc. Golden Boy Foods Inc. Golden Bright Enterprises Ltd. Great Western Brewing Company Limited Greatwater Custom Label Inc. H. J. Heinz Co. of Canada Ltd. H.Y. Louie Co. Ltd. Hamilton Brands, Inc./o Futuristic Brands USA Inc Hanif’s International Food Ltd. Happy Planet LLP Hi-Bridge Consulting Corporation Hong Dao Business Development Ltd. Horizon Distributors Horsting’s Farm Market Hudson’s Bay Company	Hung Gay Enterprises Ltd. I-D Foods Western Corp/Snapdragon Natural Foods Intersave West Buying & Merchandising Invemere Hardware & Building Supplies Co. Ltd. Island Bagel Island Farms Dairies Co-op Association J West Food Systems Ltd. Jace Holdings Ltd. (Thrifty) Jet Trading Co. Ltd. JFC International Inc. Jiva Organic Manufacturing & Distributors Inc. Jones Soda Co. Joriki Inc. JPR Global Ventures Canada Ltd. KO&C Enterprises Ltd. Konings Wholesale Kraft Canada Inc. Kwong Man Sang Co. Ltd. Lakeport Brewing Corporation Landmark Dairy Ltd. Le Kiu Importing Co., Ltd. Leading Brands of Canada, Inc. Left Coast Trading Company Inc. Lekker Foods Distributors Ltd. Liquidation World Liusco Enterprises Co. Ltd. London Drugs Limited Macdonalds Consolidated Ltd. Malinda Distributors Inc. Mandisa, Inc. Martin-Brower of Canada Ltd. Matheson Creek Farm Ltd. McCain Foods (Canada) McKesson Canada Miller Springs Ltd. Motts Canada, Cadbury Beverages Canada Mountain Manna Water & Ice Co. Nanton Water & Soda Co. National Importers Ltd. Natural Glacial Waters Inc. Natureland Bio Products Natures Perfection Nature’s Pop Sales Nature’s Water Corp.	NAYA Waters of Canada - see Danone Naya Waters Inc Nestle Canada Inc. Nestle Waters Canada New World Imports Ltd. New World Natural Foods Ltd. Nishimoto Trading Co. Ltd. North American Tea & Coffee Northern Lights College Northleaf Foods Ltd. NTC Industrial Co. Inc. Nutrifresh Distributors Nutrition Zone Products Inc. Ocean Spray International Inc. OGEN Old Victoria Water Company Olympic Foods, Inc. Orque Tradevelop Corporation (Canada) Otis McAllister, Inc. Overwaitea Food Group/Save-On-Foods Pacific Bottleworks Company Ltd. Pacific Exotic Foods Inc. Paradise Foods International Inc. Park Tak International Corporation Parmalat Canada Pepsi-Quaker Tropicana Gatorade Canada Polaris Water Company Inc. POM Wonderful LLC PRB Enterprise Inc. Principal Sales Inc. Profood International Corporation PSC Natural Foods, Ltd. Purified Water Store Corporation QPro Canada Inc. Que Pasa Mexican Foods Quixtar Canada Corporation Real Water Renegade Private Stock Ltd. Revelstokes Own Water & Ice Co. RLB Enterprises (1991) Ltd. Rocky Mountain Chocolate Factory Roy’s Ice N’ Bottled Water Salt Spring Pool Association (SSPLAS...H2O) San Remo Importers Ltd.	Santa Maria Foods Corp. Saputo Foods Limited Scott-Bathgate Ltd. Sea-Van Distributors Ltd. Shoppers Drug Mart Siena Foods Limited Skylar Haley LP Sobeys Capital Inc. Sparkling Ice/Talking Rain Beverage Star Marketing Ltd. Stars Trading Co. Ltd. Sun Wah Foods Ltd. Sun-Rype Products Ltd. T&T Supermarket Inc. Tak Tai Trading Co. Ltd. Tazo Tea Company Tetley Canada Inc. TFB & Associates Limited The Apple Valley Juice Corp. The Minute Maid Company Canada Inc. The Pepsi Bottling Group The TDL Group Corp. Thomas Canning (Maidstone) Limited Tree of Life/Gourmet Award Foods Canada - West Tree Top, Inc. Triple Jim’s Enterprises (1984) Ltd. Tun Hau Enterprises (Canada) Ltd. Unisource Canada, Inc. Uno Foods Inc. Upper 49th Imports Inc. Van Isle Artesian Springs Vansky Trading Co. Ltd. Vitality Food Service Canada Ltd. Wallace & Carey Ltd. Wal-Mart Canada Inc. Watermark Beverages Inc. West Coast Water Store Ltd. Westfair Foods Ltd. Wet Planet Beverages Whole Foods Market Wild West Organic Harvest Co-op Worrenberg Farms Zagu Foods Corporation Zebroff’s Organic Farm
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Bags of containers awaiting pickup at a Return-It™ Depot.

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. KPMG LLP, 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
President & Chief Executive Officer

May 17, 2006

Bill Chan, CGA, MBA
Vice President & Chief Financial Officer

Auditors’ Report

To the Members of Encorp Pacific (Canada)

We have audited the statement of financial position of Encorp Pacific (Canada) as at December 31, 2005 and the statements of operations, changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Corporation’s management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2005 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP
Chartered Accountants
Vancouver, Canada
March 21, 2006

Statements Of Financial Position

December 31, 2005 and 2004

	2005	2004
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 20,666,168	\$ 15,657,895
Accounts receivable	14,394,517	11,116,238
Prepaid expenses and deposit	16,200	23,514
	35,076,885	26,797,647
Capital assets (note 3)	398,214	258,199
	\$ 35,475,099	\$ 27,055,846

LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 16,252,104	\$ 14,482,736
Obligations under capital leases (note 6)	64,080	–
	16,316,184	14,482,736
Obligations under capital leases (note 6)	112,180	–

NET ASSETS		
Invested in capital assets (note 3)	221,954	258,199
Internally restricted reserve (note 4)	5,223,595	4,809,868
Unrestricted	13,601,186	7,505,043
	19,046,735	12,573,110
	\$ 35,475,099	\$ 27,055,846

Commitments (note 7)

See accompanying notes to financial statements.

Approved on behalf of the Board:


Director


Director

Statements Of Operations

Years ended December 31, 2005 and 2004

	2005	2004
REVENUE		
Deposits on containers	\$ 78,359,305	\$ 75,305,539
Container recycling fees	18,044,967	17,875,808
Contract fees	12,429,027	11,579,608
Sale of recyclable materials	14,782,565	13,433,600
Other	487,588	290,519
	124,103,452	118,485,074
Deposit refunds	61,953,590	60,407,400
	62,149,862	58,077,674
DIRECT OPERATIONS EXPENSES		
Handling fees	34,380,060	32,936,371
Depot operations	257,588	412,648
Transportation and processing fees	15,701,711	14,780,558
	50,339,359	48,129,577
	11,810,503	9,948,097
OTHER EXPENSES		
General and administrative	3,125,328	2,401,321
Consumer awareness	1,906,628	1,649,368
Amortization	106,589	76,838
Foreign exchange loss	198,333	234,416
	5,336,878	4,361,943
Excess of revenue over expenses	\$ 6,473,625	\$ 5,586,154

See accompanying notes to financial statements.

Statements Of Changes In Net Assets

Years ended December 31, 2005 and 2004

	INVESTED IN CAPITAL ASSETS	INTERNALLY RESTRICTED RESERVE	UNRESTRICTED	2005 TOTAL	2004 TOTAL
Balance, beginning of year	\$ 258,199	\$ 4,809,868	\$ 7,505,043	\$12,573,110	\$ 6,986,956
Excess (deficiency) of revenue over expenses	(106,589)	–	6,580,214	6,473,625	5,586,154
Investment in capital assets	70,344	–	(70,344)	–	–
Internal restrictions (note 4)	–	413,727	(413,727)	–	–
Balance, end of year	\$ 221,954	\$ 5,223,595	\$ 13,601,186	\$19,046,735	\$12,573,110

See accompanying notes to financial statements.

Statements Of Cash Flows

Years ended December 31, 2005 and 2004

	2005	2004
CASH PROVIDED BY (USED IN)		
Operations:		
Excess of revenue over expenses	\$ 6,473,625	\$ 5,586,154
Amortization, an item not involving cash	106,589	76,838
	6,580,214	5,662,992
Changes in non-cash operating working capital:		
Accounts receivable	(3,278,279)	2,448,312
Prepaid expenses and deposit	7,314	10,197
Accounts payable and accrued liabilities	1,769,368	(954,874)
	5,078,617	7,166,627
INVESTING AND FINANCING		
Purchase of capital assets	(27,709)	(106,003)
Repayment of capital lease obligations	(42,635)	–
	(70,344)	(106,003)
Increase in cash and cash equivalents		
Cash and cash equivalents, beginning of year	15,657,895	8,597,271
Cash and cash equivalents, end of year	\$ 20,666,168	\$ 15,657,895
Supplementary cash flow information:		
Non-cash transactions:		
Acquisition of assets under capital lease	\$ 218,895	\$ –

See accompanying notes to financial statements.

Notes To Financial Statements

Years ended December 31, 2005 and 2004

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 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.

The Corporation has been appointed by participating brandowners to carry out their duties pursuant to the terms of the Recycling Regulation that became effective on October 7, 2004 under the Environmental Management Act of British Columbia. The Recycling Regulation superseded the Beverage Container Stewardship Program Regulation that had been in effect since October 1, 1998.

Under this appointment, the Corporation acts to develop a Stewardship Plan in the form prescribed by the Regulation for the collection and management of containers for and on behalf of the brandowners 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.

2. SIGNIFICANT ACCOUNTING POLICIES:

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

- (a) Cash and cash equivalents:
- Cash and cash equivalents include cash and short-term instruments with a maturity date of three months or less from the date of acquisition.
- (b) Revenue:
- Deposits on containers and container recycling fees are received from brandowners on each container sold in the province of B.C. The Corporation records revenue on containers upon the sale of containers by the brandowners.
- Recyclable materials revenue is recorded on the date the containers are sold by the brandowners.
- Contract fees are recorded when the services are provided.
- (c) Deposit refunds, direct operations expenses and other expenses:
- Deposit refunds, handling fees and transportation and processing fees are recorded on the date the containers are sold by the brandowners. Other expenses are recorded as they are incurred.
- (d) Accruals for recyclable materials revenue and direct expenses:
- The recyclable materials revenue accrual and accruals for deposit refunds, handling fees and transportation and processing fees for containers on which fee revenue has been recorded, but which have not yet

been returned for refund, are estimated based on the industry average rate of recovery of used beverage containers. The determination of such accruals 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 percentage of used beverage containers being diverted to recycling depots, the estimated fees for services, and recyclable materials revenue prices.

- (e) Capital assets:
- The Corporation records capital assets at cost less accumulated amortization. Amortization is calculated as follows:

ASSET		RATE
Office equipment	20% declining balance	
Computer hardware	30% declining balance	
Computer software	30% declining balance	
Leasehold improvements	3 - 5 years straight-line	

- (f) 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.

Notes To Financial Statements

Years ended December 31, 2005 and 2004

3. CAPITAL ASSETS AND NET ASSETS INVESTED IN CAPITAL ASSETS:

	COST	ACCUMULATED AMORTIZATION	2005 NET BOOK VALUE	2004 NET BOOK VALUE
Office equipment	\$ 258,848	\$ 101,824	\$ 157,024	\$ 138,554
Computer hardware	338,467	148,015	190,452	34,932
Computer software	264,170	217,137	47,033	67,191
Leasehold improvements	50,719	47,014	3,705	17,522
	<u>\$ 912,204</u>	<u>\$ 513,990</u>	<u>\$ 398,214</u>	<u>\$ 258,199</u>
Included in capital assets are assets under capital leases with a cost of \$218,895 (2004 - nil) and accumulated amortization of \$31,307 (2004 - nil).				
Capital assets			\$ 398,214	\$ 258,199
Obligations under capital lease			(176,260)	–
			<u>\$ 221,954</u>	<u>\$ 258,199</u>

4. INTERNALLY RESTRICTED RESERVE:

The Board of Directors has established an internally restricted fund in recognition of the principle that the costs of recycling each container type are to be borne independent of other container types. A further \$413,727 (2004 - \$502,543) was transferred during the current year. 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 may also be used to develop and implement strategies to improve recovery rates of these specific containers.

5. CREDIT FACILITY:

The Corporation has available a \$4,000,000 credit facility bearing interest at the bank's prime rate plus 1/4% per annum, consisting of a \$2,000,000 demand revolving operating loan by way of a current account overdraft and a \$2,000,000 electronic funds transfer facility. The Corporation has provided a general security agreement,

a general assignment of book debts, and an assignment of all risk insurance as security for the credit facility. At year-end, there were no funds drawn on the facility.

6. OBLIGATIONS UNDER CAPITAL LEASES:

Total minimum payments required under capital leases are as follows:	
Year ending December 31:	
2006	\$ 72,492
2007	72,492
2008	45,212
	<u>190,196</u>
Interest (rates vary from 5% to 6%)	13,936
Present value of minimum capital lease payments	<u>\$ 176,260</u>
Interest of \$6,534 (2004 - nil) relating to capital lease obligations has been included in depot operations expense.	

7. COMMITMENTS:

The Corporation has entered into operating leases for its premises and certain equipment. The total future minimum lease payments for the years ending December 31 are as follows:

2006	\$ 348,140
2007	175,541
2008	116,341
2009	116,341
2010	116,341

8. FAIR VALUE OF FINANCIAL INSTRUMENTS:

The carrying value of cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities approximate their fair value due to the relatively short period to maturity of the instruments. Obligations under capital leases are of long-term nature and, as such, are 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 to the financial statements.

9. RELATED PARTIES:

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

Cash	\$ 2
Shareholder's equity	<u>\$ 2</u>

During the year, the Corporation paid \$110,939 (2004 - \$110,013) in Board expenses, which includes fees for some directors, reimbursable and meeting room expenses.



Pictured is Encorp's head office staff who are responsible for registering brands, managing depot operations and developing new systems, tracking depot collections, managing finances, monitoring quality and accuracy, providing consumer education, managing transporters, processors and recyclers, and ensuring that funds are properly collected, paid out and reported.