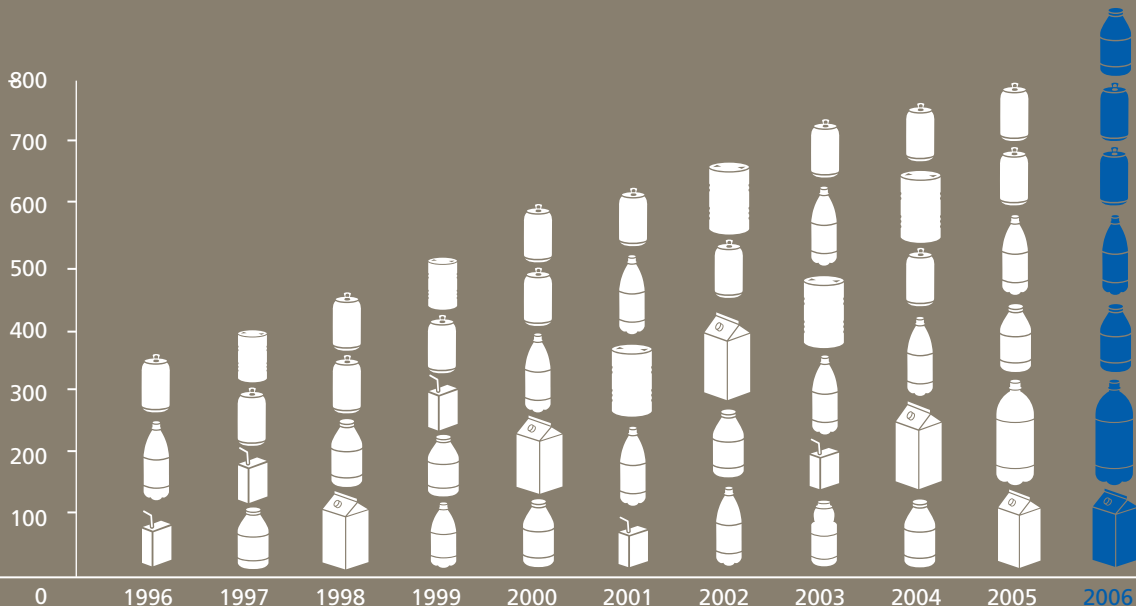


Encorp Pacific (Canada)

In 2006 the Encorp system collected and recycled 819 million non-alcohol beverage containers, over 53 million more than in 2005

NUMBER OF USED, NON-ALCOHOL BEVERAGE CONTAINERS COLLECTED BY THE ENCORP SYSTEM (MILLIONS)



METRIC TONNES OF MATERIAL RECYCLED		TYPE	CONTAINERS SOLD		CONTAINERS RECOVERED		% RECOVERY RATE	
2006	2005		2006	2005	2006	2005	2006	2005
5,171	5,124	Aluminum	469,265,503	459,600,522	376,411,420	372,983,254	80.2	81.2
9,122	8,253	Plastic	431,510,924	367,313,817	311,131,057	261,580,849	72.1	71.2
2,027	2,058	Polycoat	152,967,570	153,420,501	82,453,737	83,705,160	53.9	54.6
10,369	9,845	Glass	59,863,323	57,151,679	41,055,555	38,809,557	68.6	67.9
283	290	Other Metals	8,599,569	6,175,977	4,212,770	3,759,465	49.0	60.9
22	29	Pouches	9,377,878	10,399,900	3,910,350	4,982,463	41.7	47.9
26,995	25,599	TOTALS	1,131,584,767	1,054,062,396	819,174,889	765,820,749	72.4	72.7
+5.17%		CHANGE	Note: Does not include alcohol containers.					

# MESSAGE FROM THE CHAIR AND THE CHIEF EXECUTIVE OFFICER



A handwritten signature in blue ink that reads "NEIL HASTIE" followed by a stylized signature of "Dan Wong".

**Neil Hastie**  
*President & CEO*

**Dan Wong**  
*Board Chair*

Encorp Pacific (Canada) arrived at a series of crossroads in 2006, each with implications for the way we operate and for the industries for whom we act. Our core business, the recovery of non-alcohol beverage containers, is reaching maturity with the newest of our container types, aseptic cartons, having now been in the system for six years.

Here, the crossroad we face brings a number of new challenges, most importantly, enhancing our already high levels of consumer knowledge and convenient access to Return-It™ depots to provide for the needs of new consumers moving into the Province and to ensure we have the capacity to handle significant increases in volume. Now, for the first time, these efforts are being augmented by targeted collection initiatives to capture containers going into landfill from offices, multi-family dwellings and commercial establishments. Our best assessment is that these three (3) sectors account for 70% of all the beverage containers that currently go to landfill.

Our performance in 2006, when measured by the increase in the number of containers recovered for recycling, improved over 2005. We recovered 819 million units, an increase of 53 million over the

previous year, whereas our increase in 2005 was only 19 million. At the same time, healthy industry sales were stimulated even further by the Lower Mainland boil water advisory in November and so, in total, increased by 90 million containers. The net result is that our recovery rate stabilized at 72.4%, just under the 72.7% we achieved in 2005.

While we continue to be focused on initiatives to increase recovery rates in our core business, we have reached another crossroad as a product stewardship corporation.

In 2006, we diversified outside the beverage container deposit system to undertake service provider contracts with the BC Dairy Council and the Electronics Stewardship Association of BC. Then, early in 2007, we became the stewardship agent for the Beverage Alcohol Containers Management Council of BC. In each of these cases, the producer groups in question saw the value of utilizing our province-wide network of Return-It™ depots and the synergies that could be gained from our core competencies in consumer awareness, logistics, information technology and finance/administration.

As we are structured, our founding brandowners reap the benefits when we strengthen the depot network







and are able to share some of our overhead costs with other producer programs while at all times remaining true to our core principle that each program must be fully responsible for its costs.

A final crossroad for Encorp was the submission of our revised stewardship plan to the Ministry of Environment in October 2006. At the time of this report, we were awaiting approval of our plan and further details of the Ministry's commitment to review, some time in 2007, the beverage schedule that is part of the Recycling Regulation.

As we choose courses when faced with the many crossroads that are suddenly upon us, we remain committed to our fundamental principle of delivering industry self-managed, consumer friendly and cost effective stewardship programs that meet the specific expectations of our industry partners while respecting the environmental expectations of other stakeholders.

Each year Encorp calculates the estimated revenues and costs for each container type. This example shows how those numbers were calculated for plastic bottles under 1 litre. We've used 100 bottles so that we don't have to show fractions of a cent.

			Total Revenue	
<div> <div> <div>6</div> <div>\$6</div> <div>6</div> </div> <div>+</div> <div> <div>80¢</div> </div> <div>=</div> <div>\$6.80</div> </div>				
MONEY TO ENCORP	100 deposits @ 5¢ = \$5.00 100 CRF @ 1¢ = \$1.00 <u>          \$6.00</u>	Sale of 67 plastic bottles into commodity markets 67 x @ 1.2¢ = 80¢		
In 2005, the operating reserves for single serve plastic bottles – those under 1 litre in size- had grown above the level required. To bring the Operating Reserves back down the Container Recycling Fee, paid by consumers, was reduced. For 2006, this category was planned to operate in a deficit with the difference being made up from Operating Reserves				

					Total Expenses
COLLECTION COSTS					
MONEY FROM ENCORP	 \$3.35	 \$3.02	 67¢	 40¢	 \$7.44
	67 plastic bottles returned for refund $67 \times 5¢ = \$3.35$	Handling fees $67 \times 4.5¢ = \$3.02$	Transport & processing $67 \times 1¢ = 67¢$	Consumer awareness & administration $100 \times 4/10¢ = 40¢$	
2006 OPERATING DEFICIT ON 100 PLASTIC BOTTLES					 .64¢
DRAWN FROM RESERVES					.64¢
					.00¢



New depot designs speed container handling and efficiency

# DEPOT UPDATE



*Depots handle all types of beverage containers in any quantity*

Just as the network of Bottle and Return-It Depots is crucial to the success of Encorp's recovery of beverage containers, so is the Encorp beverage container system vital to the viability of the depot system. Without the steady revenues provided for handling Encorp containers the majority of depots could not survive. The existence of the network makes possible recovery programs for many other products including stewardship programs for things like leftover paint; as well as for cardboard, plastics and, in 2007, end-of-life electronics.

None of these individual recovery streams, save for beverage containers, provides sufficient, regular and reliable revenues on their own, or even in combination, to sustain the depot network. The Encorp depot network provides British Columbia residents with the opportunity to

consider many other waste diversion programs which, individually, would be difficult and very expensive to establish separately from the network.

In 2006 the program of upgrades and improvements for depots continued.

The total number of depots operational in 2006 remained unchanged at 169 but, in the latter part of the year, permission was finally obtained for a new depot in the City of Vancouver, one of the eight additional depots that are needed to serve that city. Encorp, through its support for independent depot operators, will continue to seek permission for additional depots in Vancouver since it continues to be the most under-served area of the province; a fact that is reflected in the large number of containers being thrown into the garbage in the city.

# LOGISTICS

Transporting and processing containers is, after depot handling fees, the largest cost item in Encorp's budget. Even small improvements in the ways that containers are transported and processed can add up to significant improvements.

In 2006 a number of refinements were implemented:

- A new baler was installed at the Nanaimo processing site which increased the weight of plastic bales from 260 to 440 kilograms. A new baler was also installed at the Victoria site which also

increased bale weights. These improvements allow for increases in individual truck load weights resulting in fewer trips with consequent savings in fuel, labour and greenhouse gases.

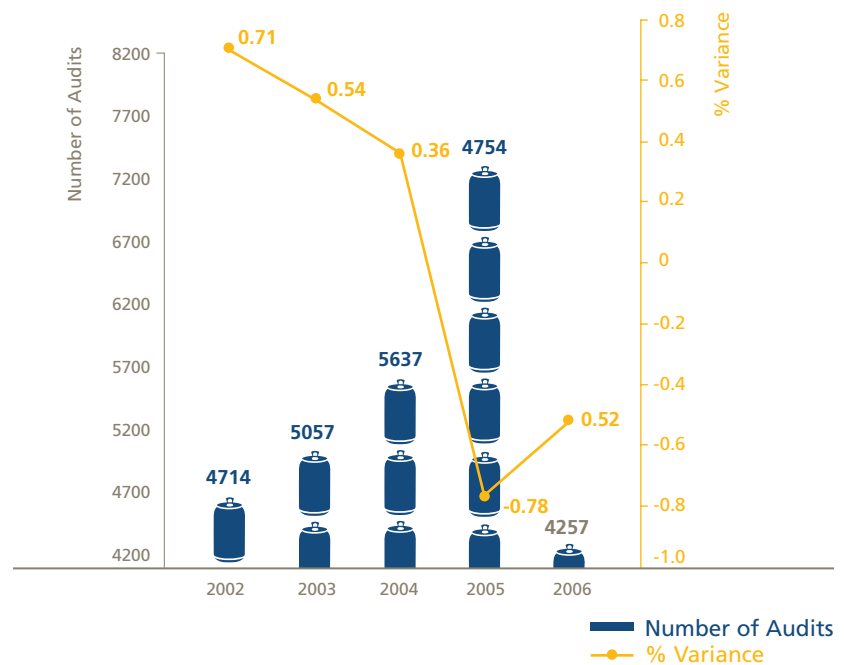
- Trials were initiated with 40' trailer units in place of the smaller trucks now in use in most areas. Where volumes justify them, these units will be introduced over the next few years and will reduce the number of trips made to collect containers.



Clear plastic bags keep lightweight container types separate and speed counting

# QUALITY ASSURANCE

AVERAGE DEPOT PERFORMANCE  
FROM 2002 TO 2006



One of the ways Encorp maintains an effective collection system for used beverage containers is by providing quality control assistance for new and existing depot operators. With the ever increasing volume of returns come new brands and new challenges; to meet these challenges improved methods of container handling are required.

In 2006, the Quality Assurance centre and the Depot Operations department started a Depot Operator Training Program. All new depot operators are required to attend this training before they can assume control of their new operation. The effect of this program was seen immediately with new operators showing improved handling of containers with fewer non-conforming containers and fewer errors with standard bag counts.

The Depot Operator Training Program provides new operators with knowledge on how to correctly identify an acceptable, registered, container versus one that is non-conforming (e.g. a deposit-exempt container). The program also explains the whole quality assurance process and why it is important not only for Encorp but also for the viability of individual depot operations. New operators are walked through the process and shown how audit bags are handled, how percentage variances are determined, and how the deductions are calculated.

The chart shows overall average depot performance from 2002 to 2006 with a gradual improvement in depot performance from 2002 to 2004. In January 2005, the allowed margin acceptable for shortages was reduced

from 3.0% to 2.0%. In the same year, there was a greater than normal number of depot ownership changes and new depot staff which resulted in a negative overall average depot performance for 2005 and 2006. This was significant for depot operators since it meant that they were overfilling bags and were depriving themselves of revenue.

- The Depot Operator Training Program, which started in 2006, showed improved performance for those new depot operators who had attended training compared to those that had not.

For 2007, this Depot Operator Training Program will be expanded to include both existing Depot Operators and Depot Operators outside of the Lower Mainland.

# CONSUMER RESEARCH

Each year, Encorp conducts extensive consumer research to determine how the upcoming year's consumer awareness campaigns should be structured. The 2005 surveys, upon which the 2006 campaign were based, was the 7th such annual event.

There were two separate surveys completed, one province-wide and one which concentrated on the Punjabi and Chinese-speaking markets.

Results from the province-wide survey, which consisted of 830 telephone interviews by Ipsos-Reid, included the following:

- Overall awareness of Encorp/Return-It throughout B.C. is 61%.
- Bottle depots are the most commonly used method of returning containers, except those from multi-family residences where the building's recycling facilities are most often used.
- Almost 25% of B.C. residents admit to throwing containers away, and those containers are most often plastic water bottles.
- Only 57% of people in the workplace put beverage containers into recycling bins.
- Convenient ways of returning containers were seen as more important than any other specific motivation to participate. (environment, deposit refund, etc).

The ethnic market survey, conducted through 201 interviews by interviewers fluent in Cantonese and Punjabi, was concentrated within the Greater Vancouver Regional District.

The findings included:

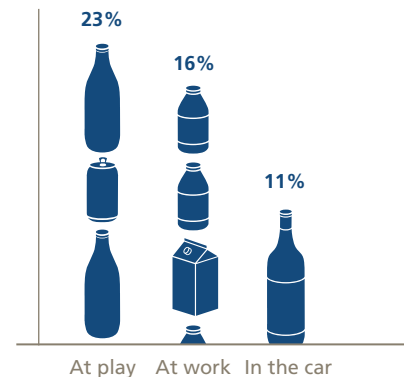
- Awareness of the deposit system, in general, is as high in these two market sectors as it is in the population as a whole, although awareness was lower in Cantonese- than in Punjabi-speaking households.
- Punjabi-speaking households are more likely to use bottle depots than Cantonese households, likely a reflection of the predominance of Punjabi-speaking families living in single-family households vs. a predominance of Cantonese-speaking families living in multi-family residences.

In addition to the consumer surveys, Encorp participated in an extensive waste audit with the Greater Vancouver Regional District. This was done to determine actual consumer behaviour, particularly in the multi-family sector. The audit revealed a considerable number of deposit bearing containers were being disposed of in the garbage from the multi-family sector in the GVRD but especially from within the City of Vancouver.

The following graph shows where people are most likely to throw away containers.

## CIRCUMSTANCES WHEN BEVERAGE CONTAINERS ARE THROWN AWAY

QUESTION ASKED: *Thinking back over the last 6 months, have you thrown away any beverages containers when you have been...? How about...?*



(Please visit Encorp's website, [www.encorp.ca](http://www.encorp.ca), for more detail on consumer research)

The following general conclusions were made based upon the research results:

- When away from home consumers were less likely to recycle.
- Residents of multi-family dwellings in urban areas are less likely to recycle than those in single family dwellings, and this category of dwelling is growing rapidly. An added barrier in the City of Vancouver is the lack of sufficient depots in convenient locations to serve the density of population.

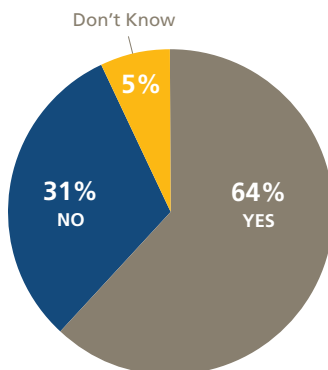
- Recycling levels are lower in workplaces than in homes, especially for those employed in office buildings.

The following are selected findings from the most recent consumer research. These clearly show that most people are aware of deposits on containers, know where they can return them and have a place convenient for them.

#### RECYCLING DEPOT LOCATED CONVENIENTLY TO HOME

QUESTION ASKED: Do you currently have a bottle depot that is conveniently located close to your home?"

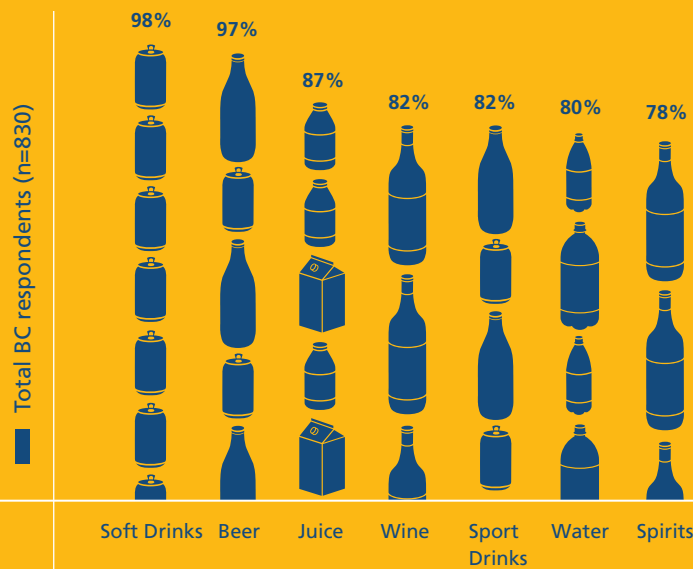
Total BC respondents



Source: Consumer Research Findings 2005

#### AWARENESS OF TYPES OF BEVERAGES ACCEPTED FOR DEPOSIT

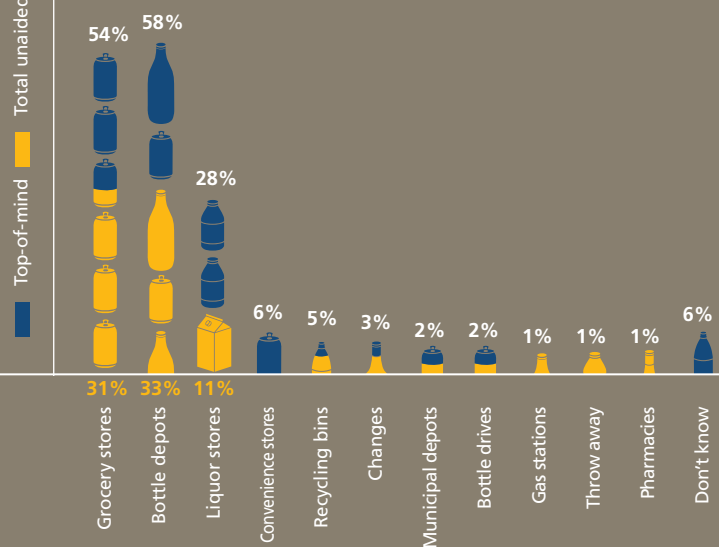
QUESTION ASKED: When it comes to different types of beverages that can be returned for deposit, please tell me whether or not you think this type of beverage



Source: Consumer Research Findings 2006

#### UNAIDED AWARENESS OF PLACES TO RETURN CONTAINERS

QUESTION ASKED: When it comes to various places you can return beverage containers for a refund on deposit, what places come to mind? Can you think of any other places?



Source: Consumer Research Findings 2006

# THE CONSUMER AWARENESS CHALLENGE

We have included an extensive outline of our 2006 plan to:

- Illustrate the extent, complexity and comprehensive nature
- Outline advertising and other social market activities
- Demonstrate specific container type campaigns for individual target audiences
- Describe the province-wide nature of our activities

The consumer awareness challenge for 2006 was based on the recognition that, while the total number of containers recovered had risen, recovery had not kept pace with the sales increases in some categories with the result that for some container types, overall recovery rate plateaued.

## 2006 OBJECTIVES

The objectives of the 2006 campaign were to:

- Find new ways to keep the Return-It™ message top of mind
- Prompt action within these new realities
- Refocus and balance marketing efforts toward the changing target markets while maintaining the existing success within single family dwellings

 2006 PUBLIC AWARENESS INITIATIVE	 TIMING	 MARKET
General beverage container recycling awareness	Year round exposure	Province Wide, with emphasis on Vancouver/Victoria
SPECIFIC CONTAINER CAMPAIGNS		
Aluminum and plastic ≤ 1 litre	June through August	Lower Mainland
Polycoat - drink box	November/ December	Lower Mainland
≥ 1 litre gable top cartons	September 4th - October 23rd	GVRD & Fraser Valley
Wine & liquor	April 10-24 Dec 25 - Jan 15	Province Wide TV Vancouver/Victoria & extended markets
PROGRAMS		
Best Stewards	Earth Day, Week, other coordinated events	Province Wide
Return-It @ work	November/ December	City of Vancouver
Outdoor spaces festivals & events	March through September	GVRD & Fraser Valley
Local Depot marketing programs	May 1st - September 4th	GVRD & Fraser Valley
Public Service Announcements	Year round TV exposure	Province Wide
School Programs	School year	Province Wide
Return-It Man	Year round	Lower Mainland & Fraser Valley
OTHER INITIATIVES		
High School PSA contest	January and May	Province Wide

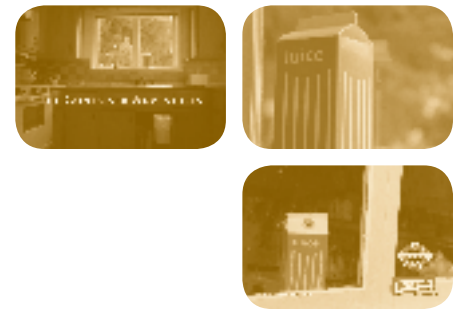
## DEPOT POSTER



## COUPON



## TELEVISION



### CREATIVE & MEDIA

Informational brochures in 4 languages,  
30 second TV spot, In-Depot posters, Website



### TARGET MARKET

All residents of BC who consume soft  
drinks, waters, juices etc.



### RESULT

72.4% Recovery rate  
53.3 Million more recovered  
68.8% Incremental recovery rate

Karma campaign-Exterior bus advertising, 24 hours  
Newspaper, Retail store floor freezer talks, Return-  
It Man mascot events, Radio station street teams

18-34 active outdoor crowd, 60/40  
male female split

75.5% Recovery rate  
53.9 Million more recovered  
72.8% Incremental recovery rate

In- Depot poster, In touch TV commercials,  
Retail grocery coupon

a) 20-40 year old mothers, b) families  
who pack lunches for work, school or  
on the go

53.7% Recovery rate  
1.5 Million fewer recovered  
119.2% Incremental recovery rate

15 second TV spot, In-depot poster, direct mail  
piece, Retail grocer coupon

Women 35-54, working, income level  
over \$75,000, 70/30 female male split

58.6% Recovery rate  
0.2 Million more recovered  
28.9% Incremental recovery rate

15 second TV spot, In-Depot poster, Liquor Store  
Depot location flyer, direct mail piece, 2 Radio  
commercials, Return-It Man appearances

50/50 men/women, above average  
income, aged 35-64

70.8% Diversion rate  
19.2 Million more recovered

Series of articles (8) Vancouver Sun and  
Business in Vancouver

Municipal and provincial governments,  
NGOs, Business leaders, educators in  
the field, stakeholders etc

Greater understanding of our systems with  
the target group

Return-It @ work kit, Direct mail to 1,100 offices,  
Return-It Man visits with CEO's, Survey of  
recycling facilities in office buildings

Business, office leaders, decision  
makers @ work

637 office visits, 72 pictures with business  
leaders, analysis of current office recycling

30 branded bins, depot service provider,  
RIM with swag

Active people consuming beverages  
while participating in leisure activities

High profile presence at 25 major events

In Depot consumer contest with Home theater  
prize package, newspaper ads, radio spots,  
Return-It Man depot events

Drive new customers to Depots and  
encourage existing customers to visit  
more often

32 Depots purchased the promotion package.  
Participating depots increased volume 3.8  
million units more than last year

4- PSAs explaining the recycling process of  
each commodity type

Residents of BC watching TV

Value added bonus for our investment in TV

Web based contest for elementary and  
high schools

School aged kids and teachers

Collected 3.5 million Containers, gave out \$275,000  
in deposit refund, awarded \$6,000 prizes, awarded  
175 Certificates for leadership, excellence

Over 100 public appearances

Consumers of beverages in BC,  
appearances targeted to appropriate  
campaign in implementation timeline

Heightened awareness levels

Web based high school contest, winners  
aired on Global TV

High School students

Revived 21 PSAs, aired 3 winners

# NEW INITIATIVES

In 2006 Encorp introduced a number of new, additional, initiatives designed to combat static or declining recovery rates. The major initiatives included:

- **New Depots in the City of Vancouver** – Since the City of Vancouver has less than half the number of depots required to provide its population with the same level of service as the rest of the province, and several attempts to obtain approval by individual depot operators were turned down, Encorp provided logistical and financial support directly to potential depot operators in their attempts to obtain planning approval for new depots in the City. After extensive efforts, a new depot was given provisional approval by the City's Board of Variance in the Fall of 2006. Encorp will continue with this activity in order to assist operators to add the additional 8 depots needed to provide adequate coverage in the City.
- **Return-It @ Work** – Waste audit information showed that businesses were a significant contributor to the number of beverage containers being thrown into the garbage. To combat this trend, and to instill the same recycling enthusiasm that is present in the home, Encorp, in cooperation with the offices of the Minister of Environment and

the Mayor of Vancouver, mounted a large public information campaign focused on the major office buildings in Vancouver. Armed with posters, brochures and letters from the Minister and the Mayor; Encorp's mascot, Return-It Man, visited offices throughout the downtown core to encourage greater recycling of beverage containers and other recyclable materials.

- **Charitable Groups** – Groups such as the Salvation Army which rely on donations of clothing and other goods to support their activities, have been involved in several pilot programs to collect donations of containers. The success of these programs has led to the establishment of regular collections of containers through several charitable groups.
- **Restaurants and Food Services** – The hospitality industry sector has been identified as one of the largest potential areas from which to increase recovery rates but it has special needs in order to facilitate recycling. Encorp has assisted mobile service providers such as ABD Solutions enabling them to provide unique services into this market. ABD Solutions provides food service establishments with a recycling cart complete with a lockup system which allows them to be installed outside and prevents pilfering.



*Recycling at the workplace.*

# BEVERAGE CONTAINER STEWARDSHIP PLAN



A major task for Encorp in 2006 was the development and submission of a revised Stewardship Plan as required by the Recycling Regulation. Encorp's current Stewardship Plan, approved in 2000, was re-written with input and assistance from Encorp's Advisory Committee and other stakeholder groups. The plan was submitted to the Ministry of Environment on time in early October. When approved, the Plan will be posted on Encorp's website.

# THE ENCORP BUSINESS MODEL

The success of the industry product stewardship model, of which Encorp is the largest example in British Columbia, is dependent on the attainment of three goals:

- Consumer support for, and active participation in, the objectives of the program
- High governance standards including public accountability and transparency
- Economies of scale to reduce operational costs

Consumer support for industry product stewardship, and for recycling in general, would diminish rapidly if costs were not contained. Some types of general recycling, notably paper and metals, generate enough money from the sale of materials to cover their collection costs and therefore don't require a subsidy. Product stewardship agencies, however, cannot select only the most valuable materials to recover but must collect and recycle all the types of materials used in their product sector. They also cannot pick and choose their collection areas but must cover the entire province and must also meet other regulatory requirements which have an impact on costs. These factors mean that industry product stewardship programs require additional funding beyond the market value of the collected materials and, in Encorp's case unredeemed deposits, to support each system.

Regardless of how this additional funding is collected, the most efficient way is to do so through a single collection agency, and to a single standard, in order to ensure equity and compliance amongst brand owners, comparable collection standards across the province and consistent consumer messaging. Such systems are expensive to establish and maintain, but once in place, can handle expansion into different sectors with consequent savings, i.e., economies of scale for all participants.

To achieve these economies of scale, and thereby minimize the additional fee requirement, a product stewardship agency will seek managed, compatible, growth which can come through the addition of new product sectors or through geographic expansion.

It is this single agency status, and incentive for growth, which causes some concern about the development of 'monopolies' in certain categories or geographic areas. While this may be a concern in conventional business sectors which can stand financially alone on the value of their products, it is most likely the only way industry product stewardship, with its requirement for additional fees, equitably applied to the sale price of all products in a category, can successfully operate.

A degree of protection is also a requirement for a viable depot network which needs to be

provided with the security of adequate volumes of materials and revenues. The regular, consistent and substantial payments Encorp makes to depots for the collection of non-alcoholic and some alcoholic beverage containers sustains the depot network and makes it available for other, smaller, stewardship programs which could not support the network either alone or combined.

Economies of scale are also a way of obtaining the best prices for the collected materials. Adequate, consistent volumes of materials are the only way for transporters and processors to justify capital investment in plant and equipment.

Encorp is a "monopoly" only in the organizational area; namely depot licensing, finance, administration, producer/brand registration and consumer education, where it needs to be for successful, cost-efficient, operation. In all other aspects it contracts services in the competitive marketplace to ensure the lowest available costs at all times.

This philosophy is evident in the two key areas in which Encorp enters into contracts.

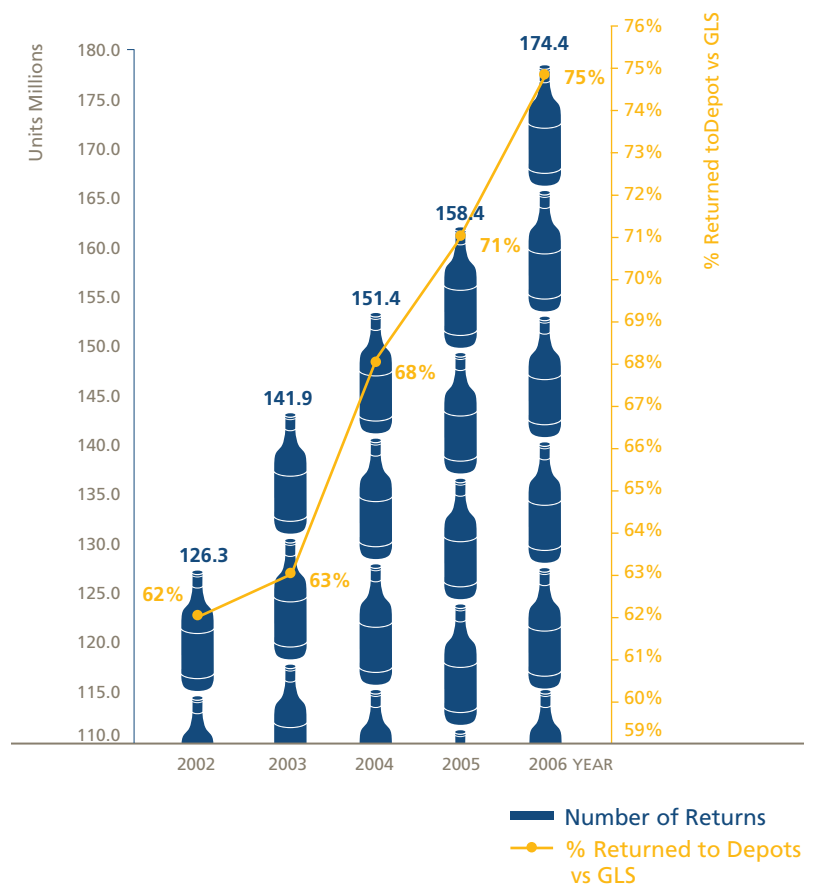
## CONTRACTS FOR THE PROVISION OF SERVICES BY ENCORP

Encorp's activities are divided into two major sectors: the first, and most important, is the delivery of product stewardship agency services for the non-alcoholic beverage brand owners who are members of Encorp. A key principle in the delivery of these services is that there be no cross-subsidy between different container types. This ensures that brand owners who choose to package in one specific type of container will neither receive payment from, nor make payments to, the costs of collecting a different container type chosen by a competitor.

The second major sector of Encorp's business is that of service provider contracts for industry sectors which are not part of Encorp's beverage company membership. For any such contracts to be considered they must enhance Encorp's economies of scale and meet some basic principles:

- Each contract must provide some financial benefit to the existing beverage container system, usually through a reduction in overall operational costs.
- The contract must enhance, or at least be compatible with, Encorp's main business of recovering and recycling beverage containers

## LDB CONTAINER RETURNS



# THE ENCORP BUSINESS MODEL

- Each contract must pay its own way with no-cross subsidy from Encorp's beverage container program nor from any other contract

In 2006 Encorp was involved with the following service provider contracts:

## B.C. LIQUOR DISTRIBUTION BRANCH

The BCLDB is currently the product stewardship agency for all wine, spirits and cooler containers as well as beer sold in non-refillable bottles. Since 2001, the BCLDB has contracted with Encorp Pacific to recover containers through the depot network and to provide transportation services for containers collected through Government Liquor Stores.

In 2006, the Encorp system collected 174 million used alcoholic beverage containers weighing nearly 56 million KG. Nearly 75% of these containers were returned by consumers to Encorp Bottle and Return-It Depots, an increase of 4%.

In the latter part of 2006, the BCLDB announced that it no longer wished to be the product stewardship agency for these containers and that it would seek to have the alcoholic beverage industry assume the responsibility. The organizational arrangements for this changeover will be finalized in 2007 but, regardless of the final structure, no changes to consumer requirements, access or convenience are expected.

## B.C. DAIRY COUNCIL

Milk cartons and jugs are exempt from the Recycling Regulation and are not subject to deposit or refund. The B. C. Dairy Council opted to establish a voluntary collection program for these containers and asked Encorp if it was interested in providing services. As a result, Encorp entered into a service provider contract with the Dairy Council in mid-2006 under which most Encorp depots will, by the summer of 2007, be collecting and recycling milk cartons and jugs. The first phase of the program was rolled out in the Fraser Valley and Greater Vancouver in October 2006, with the Interior, Vancouver Island and the North to follow in early 2007.

## ELECTRONICS STEWARDSHIP ASSOCIATION OF B.C.

In 2006, in response to an Order-In-Council adding certain electronic items to the Recycling Regulation, Electronic Product Stewardship Canada invited proposals from several organizations to provide administration, collection, consumer awareness and recycling operations for these designated, end-of-life electronic products.

In June 2006, Encorp was selected as the successful applicant with the first task of developing a draft stewardship plan, including public consultation, for submission to the Ministry of Environment. Public

consultation on the stewardship plan took place during September and the plan was submitted to the Ministry in mid-October. The plan was approved by the Ministry in December and the program is scheduled to begin in August 2007. The plan calls for consumers to return end-of-life computers, televisions and desktop printers to selected depots, and other sites, around the province from which they will be shipped to qualified recyclers. Encorp will be responsible for managing the collection program, including an extensive public awareness campaign, under the supervision of the Electronics Stewardship Association of B.C. which was formed expressly for this purpose.

## CONTRACTS FOR THE PROVISION OF SERVICES TO ENCORP

Another hallmark of the Encorp system is that the majority of services are delivered by third-party contractors rather than by Encorp employees. These services range from the depots themselves, which are independently owned, to transportation, processing, software development, design, production and placement of consumer awareness programs, government relations and website design and hosting.

A selection of some of the people who provide services to Encorp are featured in the following photos:



*Jessica Hogendoorn, Encorp Marketing Coordinator, (left front) and Sandy Sigmund, Encorp Director of Marketing & Development (right front) with their marketing support team of Andeen Pitt, Celeste Herbert, Kyle Scotland, Shannon Goodyear, from Wasserman and Partners*



*Kevin Andrews from Merlin Plastics (L), one of the processing contractors who support Mike Valois, Encorp Transportation and Logistics Manager (R)*



*Encorp legal affairs are handled by (L to R) Michelle Booker, Ron Ezekiel, Tracey Cohen and Paul Wilson of Fasken Martineau DuMoulin LLP*



*Government relations and corporate communications are handled by Jennifer Torney and Mark Reder of Fleishman Hillard Canada Inc. and by Malcolm Harvey, M.E. Harvey and Associates*



# FINANCING THE SYSTEM

## WHERE THE MONEY COMES FROM: (REVENUES)

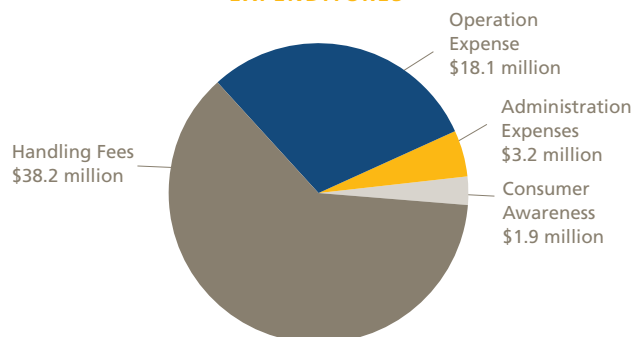
- Unredeemed Deposits – Encorp is paid a deposit on every container sold. Deposits unclaimed are used as revenue.
- Sale of Collected Materials – All the collected aluminum, plastic, glass, etc. is sold on the open market. Aluminum is the most valuable, followed by plastic; some, like glass, have no net market value.
- 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 IS SPENT: (EXPENSES)

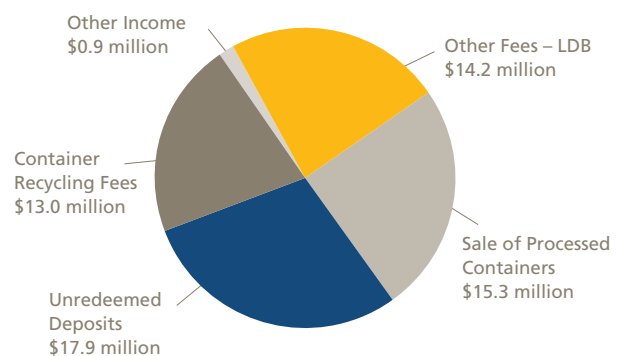
- Deposit Refunds – Paid to depots and grocery retailers to reimburse them for the deposits they have refunded to consumers.
- Container Handling Fees – Per-unit fees paid, in addition to deposit reimbursement, to depots and grocery retailers for collecting containers. After deposit refunds this is the 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.

### EXPENDITURES



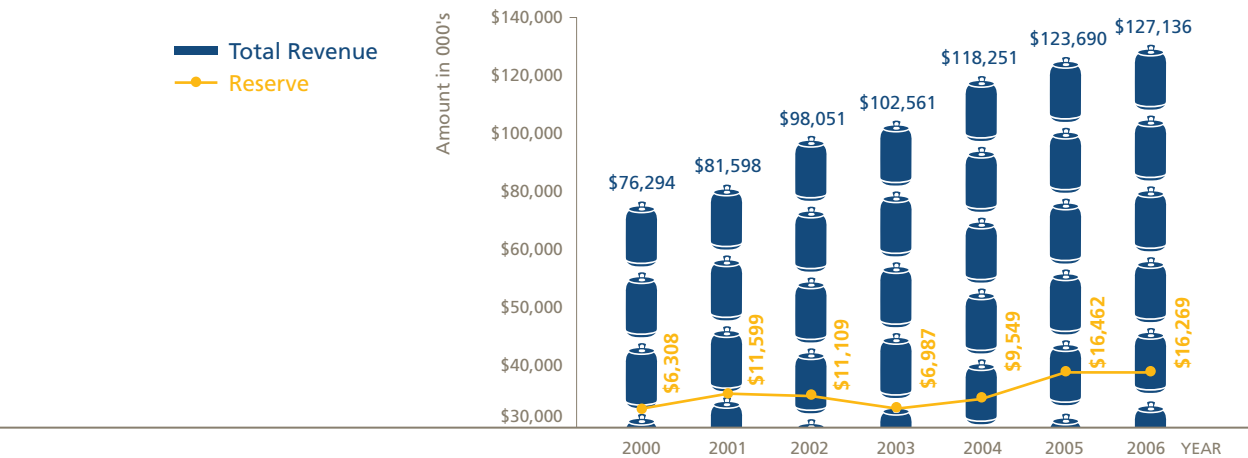
### REVENUES



# OPERATING RESERVES

	2005 BALANCE	2006 OPERATING	2006 BALANCE	2007 OPERATING BUDGET	2007 BALANCE
Operating Reserve	\$ 7,029,754	\$ 328,732	\$ 7,358,486	\$ (9,638,400)	\$ (2,279,914)
Restricted Reserve	4,989,876	592,355	5,582,231	(126,595)	5,455,636
LDB Reserve	4,442,637	(1,114,528)	3,328,109	(1,465,000)	1,863,109
Total Reserve	\$ 16,462,267	\$ (193,441)	\$ 16,268,826	\$ (11,229,995)	\$ 5,038,831

## ENCORP PACIFIC (CANADA) TOTAL REVENUE VS RESERVES



## CONTAINER RECYCLING FEE

The following table shows CRF changes over time for major container categories.<sup>†</sup>

CRF included in retail price until spring 2000

CRF shown separately by most grocery retailers after spring 2000

CONTAINER TYPE	2004	2005	2005	2006*	2006**	2007*
Aluminum cans	1¢	1¢	N/A	N/A	N/A	N/A
Plastic up to 500ml	3¢	3¢	3¢	2¢	1¢	1¢
Plastic 501ml to 1L	3¢	3¢	3¢	2¢	1¢	1¢
Plastic over 1L	4¢	4¢	4¢	4¢	4¢	3¢
Polystyrene	1¢	1¢	1¢	1¢	1¢	1¢
Glass up to 500ml	4¢	4¢	4¢	4¢	4¢	4¢
Glass 501ml to 1L	4¢	4¢	4¢	4¢	4¢	4¢
Glass over 1L	5¢	5¢	5¢	5¢	5¢	5¢
Bi-metal up to 500ml	N/A	N/A	N/A	N/A	N/A	N/A
Bi-metal 501ml to 1L	N/A	N/A	N/A	N/A	N/A	N/A
Bi-metal over 1L	N/A	N/A	N/A	N/A	N/A	N/A
Bag-in-a-box over 1L	N/A	N/A	N/A	N/A	N/A	N/A
Drink box up to 500ml	N/A	N/A	N/A	N/A	N/A	N/A
Drink box 500ml to 1L	4¢	4¢	4¢	4¢	4¢	4¢
Drink box over 1L	N/A	N/A	N/A	N/A	N/A	N/A
Gable top up to 500ml	N/A	N/A	N/A	N/A	N/A	N/A
Gable top 501ml to 1L	N/A	N/A	N/A	N/A	N/A	N/A
Gable top over 1L	N/A	N/A	N/A	N/A	N/A	N/A
Drink Pouches less than 1L	N/A	N/A	N/A	N/A	N/A	N/A

Containers up to and including 1L – .05 deposit

Container over 1L – .20 deposit \*February 1 \*\*July 1

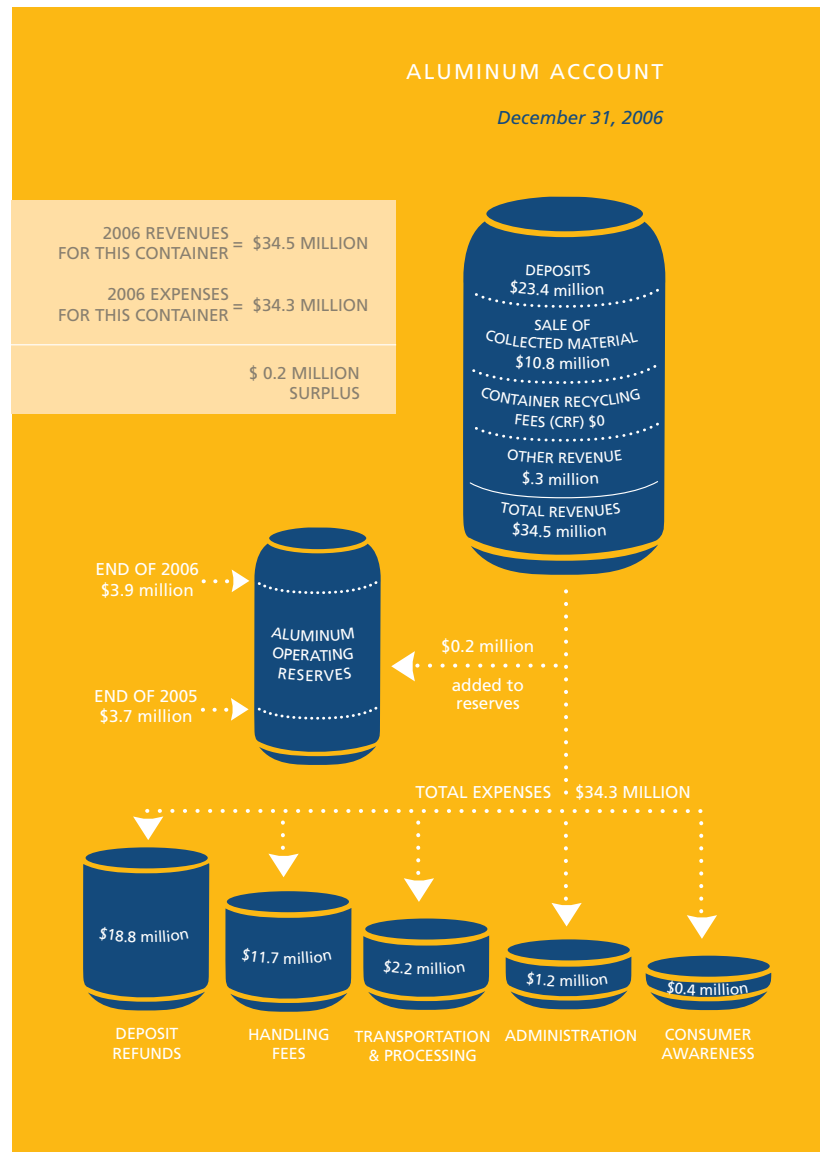
<sup>†</sup> A complete list of current CRF amounts is available on our website – [www.encorp.ca](http://www.encorp.ca)

Any funds remaining after all expenses are paid are placed into operating reserves.

Encorp acts as a clearing house for the funds required to reimburse consumer deposits and pay the costs of running the system. To maintain the system's financial viability over the long term Encorp maintains a minimum level of operating reserves. 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 increases in activities designed to improve the recovery rate for a specific container type.

The table shows the changes in the Operating Reserves over the past year.



# ENCORP GOVERNANCE

## GOVERNANCE PRACTICE

Encorp continues to use the guidelines produced by the Toronto Stock Exchange for publicly listed companies in Canada as a basis for its governance practices. The not-for-profit structure of Encorp Pacific means that a number of the TSX guidelines are not applicable but the fundamental principles are followed. These include:

- The Board explicitly assumes responsibility for the stewardship of the company including strategic planning, identifying risks and responsibility for internal controls, among others.
- The Board undergoes regular self-assessments of its own effectiveness.
- The Board provides orientation and education for new recruits to the Board and regularly reviews directors' compensation.
- The Board explicitly assumes responsibility for developing the company's approach to corporate governance issues.
- The Board, together with the CEO, approves or develops corporate objectives for the Board and the CEO.
- The Board can function independently of management.
- The Board has an Audit Committee consisting of non-management Directors.

## BOARD

Encorp places great emphasis on its governance model in order to achieve high standards of accountability and transparency to meet its responsibilities as an Industry Product Stewardship company.

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 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 Encorp's commitment to accountability is a Board Manual for Directors prepared 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** - 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** - 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 an 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.

## NOMINATING

Is tasked with developing criteria which the Board may consider in making appointments to the Board and to the Advisory Committee. 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	<i>President D. Wong &amp; Associates Public Affairs</i>	Juice Council of British Columbia	<i>Audit Compensation Governance</i>
Neil Antymis	<i>Director, Environmental Affairs The Pepsi Bottling Group (Canada) Co.</i>	Refreshments Canada	<i>Audit Compensation</i>
Elizabeth (Betsy) Griswold	<i>Executive Director Canadian Bottled Water Association</i>	British Columbia Bottled Water Association	<i>Audit Nominating</i>
Neil Hastie	<i>President and CEO Encorp Pacific (Canada)</i>	Inside director	<i>Nominating</i>
Liisa O'Hara	<i>Commissioner, British Columbia Utilities Commission</i>	Unrelated director	<i>Audit Nominating</i>
Dale Parker	<i>Chairman Pacific Parkinsons Research Institute</i>	Unrelated director	<i>Compensation Governance</i>
David Ryzebol	<i>Vice President Public Relations and Government Affairs Canada Safeway Limited</i>	Canadian Council of Grocery Distributors	<i>Audit Compensation Nominating</i>
Justin Sherwood	<i>Vice President, Western Region Canadian Council of Grocery Distributors</i>	Canadian Council of Grocery Distributors	<i>Governance</i>
Christina Smith	<i>Director , Government and Industry Relations Coca Cola Bottling Company</i>	Refreshments Canada	<i>Governance Nominating</i>

## ENCORP PACIFIC (CANADA) BOARD OF DIRECTORS 2006



L to R Justin Sherwood, Dale Parker, Betsy Griswold, David Ryzebol, Neil Hastie, Liisa O'Hara, Neil Antymis, Christina Smith, absent from photo, Dan Wong

# ADVISORY COMMITTEE

## 2006 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 three times in 2006 to review and comment on the budget, financial statements and consumer awareness campaigns. There was also discussion regarding the new electronics stewardship plan and Encorp's involvement as the service provider and its affect on the beverage container stewardship program.

The Advisory Committee also led the consultation process on the new Stewardship Plan required by the provincial Recycling Regulation. The committee provided comments from their constituents and reviewed all of the correspondence submitted by other interested parties. Committee members reached consensus on some issues but not on others and reviewed the final Stewardship Plan report before it was submitted to the Province.

The Committee welcomed 4 new members: Pat Fitzgerald from the University of British Columbia, Linda Barnes, Councillor for the City of Richmond, Brock MacDonald, Executive Director of the Recycling Council of BC and Janice Song, owner operator of the Ironwood Bottle Depot in Richmond.



Al Lynch

*Chair Advisory Committee*

Mark von Shellwitz  
Linda Barnes  
Catarina Wong  
Janice Song  
Al Lynch (Chair)  
Natalie Zigarlick  
Brock MacDonald  
Reinhard Trautmann  
Ken Lyotier  
Pat Fitzgerald

*Canadian Restaurant and Food Services Association  
City of Richmond  
Coremark International Inc.  
Ironwood Bottle Depot  
North Shore Recycling Program  
British Columbia Water and Waste Association  
Recycling Council of British Columbia  
Regional District of Central Kootenay  
United We Can  
University of British Columbia*



*Rear L to R: Natalie Zigarlick, Reinhard Trautmann, Brock MacDonald, Ken Lyotier  
Front L to R: Janice Song, Al Lynch, Catarina Wong  
Absent from photo: Linda Barnes, Pat Fitzgerald, Mark von Shellwitz*

3 D Distribution Canada Ltd.  
561572 B.C. Ltd. d/b H2O FOR YOU  
7-11 Canada  
A. Bosa & Co. Ltd.  
A. Lassonde Inc.  
ABS Trading Co. Ltd.  
Ace Beverages  
Acklands - Grainger Inc.  
AFOD Ltd.  
Albi Beverages Division of Triton Marine Group  
Alfresh Beverages Canada Corp.  
Allcity Importers Ltd.  
All-Sport Bottling Co. Ltd.  
Amari Enterprises Inc.  
Anchor Foods International Ltd.  
Anco Enterprises Limited  
AquaUno Beverage Corp.  
Aquazone Water N Vita Inc.  
Arctic Chiller Ltd.  
Arla Foods Inc.  
Avalon Dairy Ltd.  
Avani Water Corporation  
Aviara Sales Inc.  
Big and Co. Distribution  
Big Earth Brands O/A Vital Lifestyle Water  
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.  
Chase Trading Group Inc.  
Chilliwack Water Store Ltd.  
Clearly Canadian Beverage Corp.  
Cliffstar Corporation  
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.

# BRANDOWNERS REPRESENTED BY ENCORP

Distribution Missum Inc.  
 Diversified Brands  
 Dole Foods of Canada Ltd.  
 Double D Beverage Co.  
 EAS Canada  
 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.  
 Five Star Beverages Inc.  
 Flexx Sports Equipment Ltd.  
 Fluid Beverage Corporation  
 Fok's Trading (Canada) Ltd.  
 Fountain Drinks (Canada) Co. Ltd.  
 Fresh Logistics  
 Fukuda Trading Co. Ltd.  
 FUZE Beverage, LLC  
 G.I. Energy Drinks Corporation  
 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.  
 Guayaki Sustainable Rainforest Products Inc.  
 H. J. Heinz Co. of Canada Ltd.  
 H.Y. Louie Co. Ltd.  
 Hamilton Brands, Inc./o Future Brands USA Inc.  
 Hanif's International Food Ltd  
 Happy Planet LLP  
 Hermann Pfanner Getranke Ges.m.b.H.  
 Hi-Bridge Consulting Corporation  
 Hongdao Business Development Ltd.  
 Horizon Distributors  
 Horsting's Farm Market  
 Hudson's Bay Company  
 Hung Gay Enterprises Ltd.  
 Hydratech Innovations  
 I-D Foods Western Corp.  
 Inform Brokerage Inc.  
 Intersave West Buying & Merchandising  
 Invenere Hardware & Building Supplies Co. Ltd.  
 Island Bagel  
 Island Farms Dairies Co-op Association  
 J West Food Systems Ltd.  
 J.W. Mason and Sons Ltd.  
 Jace Holdings Ltd. (Thrifty)  
 Jet Trading Co. Ltd.  
 JFC International Inc.  
 Jiva Organic Manufacturing & Distributors Inc.  
 Jones Soda Co.  
 Joriki Inc.  
 Kan-Pak, LLC  
 Keg Brands Inc.  
 KO&C Enterprises Ltd.  
 Konings Wholesale

Kraft Canada Inc.  
 Lakeport Brewing Corporation  
 Landmark Dairy Ltd.  
 Laurance Milner Holdings  
 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  
 M-13 Ventures Ltd.  
 Malinda Distributors Inc.  
 Mandisa, Inc.  
 Martin-Brower of Canada Ltd.  
 Matheson Creek Farm Ltd.  
 McCain Foods (Canada)  
 McKesson Canada  
 Miller Springs Ltd.  
 Montage Corporation  
 Motts Canada, Cadbury Beverage Canada  
 Mountain Manna Water & Ice Co.  
 Nanton Water & Soda Co.  
 National Focus Distribution Logistics Inc.  
 National Importers Ltd.  
 Natural Glacial Waters Inc.  
 Nature Land Products Ltd.  
 Natures Perfection  
 Nature's Pop Sales  
 Nature's Water Corp.  
 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.  
 OGEM  
 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.  
 Park Tak International Corporation  
 Parmalat Canada  
 Parmalat Dairy & Bakery Inc.  
 Pepsi-QTG Canada  
 Polaris Water Company Inc.  
 POM Wonderful LLC  
 PRB Enterprise Inc.  
 Principal Sales Inc.  
 Profood International Corporation  
 PSC Natural Foods, Ltd.  
 Purely Juice, Inc.  
 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.  
 Ripple FX Water Inc. dba Promo H2O  
 RLB Enterprises (1991) Ltd.  
 Rocky Mountain Chocolate Factory  
 Roy's Ice N' Bottled Water  
 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.  
 Stillcreek Distributing Ltd.  
 Strait Water Inc.  
 Sun Wah Foods Ltd.  
 Sun-Rype Products Ltd.  
 T&T Supermarket Inc.  
 Taiwan Food Products Ltd.  
 Tak Tai Trading Co. Ltd.  
 Tazo Tea Company  
 Tetley Canada Inc.  
 TFB & Associates Limited  
 The Apple Valley Juice Corp.  
 The Healthy Beverage Company LLC  
 The Minute Maid Company Canada Inc.  
 The North West Company Inc.  
 The Pepsi Bottling Group  
 The TDL Group Corp.  
 Thomas Canning (Maidstone) Limited  
 Tree of Life/Gourmet Award Food Canada - West  
 Tree Top, Inc.  
 Triple Jim's Enterprises (1984  
 Tun Hau Enterprises (Canada) Ltd.  
 Unisource Canada, Inc.  
 Uno Foods Inc.  
 Upper 49th Imports Inc.  
 Van Isle Artesian Springs  
 Vansky Trading Co. Ltd.  
 Vitality Foodservice Canada Inc.  
 Vivid Glas Water Sales & Distribution Limited  
 Wah Loong Ltd.  
 Wallace & Carey Ltd.  
 Wal-Mart Canada Inc.  
 Watermark Beverages Inc.  
 West Coast Water Store Ltd.  
 Westfair Foods Ltd.  
 Wet Planet Beverages  
 Whitefish Marketing Ltd.  
 Whole Foods Market  
 Wild West Organic Harvest Co-o  
 Worrenberg Farms  
 Z.A.S. International Inc.  
 Zagu Foods Corporation  
 Zebroff's Organic Farm



#### CHANGE IN ACCOUNTING POLICY – CONTAINERS IN TRANSIT

Containers In-Transit represents those Used Beverage Containers (UBCs) for which the fee revenue (deposits and Container Recycling Fees) have been received but which have not been returned for refund.

Since its inception in 1994, Encorp's accounting treatment of Containers In Transit has been to recognize the revenue from deposits and Container Recycling fees and to accrue the anticipated expenses for deposit refunds, handling and processing fees, and transportation, plus the

anticipated revenue from the sale of the collected commodity.

In December 31, 2005 accrued expenses were \$11.6 million and accrued commodity revenue was \$2.0 million.

To better reflect the recent changes in Canadian Generally Accepted Accounting Principles (GAAP), Encorp has changed its accounting policy in the current year regarding the timing of the recognition of revenue and expenses relating to Containers In Transit. Since there are activities to be undertaken and obligations to be fulfilled relating to Containers In-Transit at December 31, 2006, management has determined that a

more appropriate policy is to defer the revenue and recognize the expenses when they incur. This represents a more conservative approach towards recognizing both revenue and expenses.

In summary, instead of recognizing the revenue and accruing for the expenses, the revenue will now be deferred until the obligations are completely fulfilled. The overall impact as a result of the change in accounting policy is a reduction in the operating reserves of \$1.7 million as of December 31, 2006.

# 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*



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

May 2, 2007

# 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, 2006 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, 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The logo for KPMG LLP, featuring the letters 'KPMG' in a stylized, handwritten font, followed by 'LLP' in a smaller, simpler font.

Chartered Accountants

Burnaby, Canada

March 22, 2007

# STATEMENT OF FINANCIAL POSITION

December 31, 2006, with comparative figures for 2005

	2006	2005 (restated note 10)
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 19,229,810	\$20,666,168
Accounts receivable	13,644,004	11,923,517
Prepaid expenses and deposit	22,339	16,200
	32,896,153	32,605,885
Capital assets (note 3)	505,588	398,214
	\$ 33,401,741	\$33,004,099
<b>LIABILITIES AND NET ASSETS</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 4,576,833	\$ 4,623,160
Deferred revenue	12,331,420	11,742,412
Current portion of obligation under capital leases	121,931	—
	17,030,184	16,365,572
Obligations under capital leases (note 6)	102,731	176,260
	17,132,915	16,541,832
<b>NET ASSETS</b>		
Invested in capital assets (note 3)	280,926	221,954
Internally restricted reserve (note 4)	5,582,231	4,989,876
Unrestricted	10,405,669	11,250,437
	16,268,826	16,462,267
	\$ 33,401,741	\$33,004,099

Commitments (note 7)

See accompanying notes to financial statements.

Approved on behalf of the Board:



Director



Director

# STATEMENT OF OPERATIONS

Year ended December 31, 2006, with comparative figures for 2005

	2006	2005 (restated note 10)
<b>REVENUE</b>		
Deposits on containers	\$ 83,806,563	\$ 78,138,494
Deposit refunds	(65,951,436)	(61,673,090)
	17,855,127	16,465,404
Container recycling fees	12,950,203	18,402,835
Contract fees	14,229,148	12,429,027
Sale of recyclable materials	15,253,181	14,430,565
Other	824,021	487,588
	61,111,680	62,215,419
<b>DIRECT OPERATIONS EXPENSES</b>		
Handling fees	38,211,744	34,136,260
Depot operations	331,743	257,588
Transportation and processing fees	17,807,230	15,571,711
	56,350,717	49,965,559
<b>OTHER EXPENSES</b>		
General and administrative	2,987,860	3,125,327
Consumer awareness	1,864,326	1,906,628
Amortization	149,858	106,589
Foreign exchange loss	(72,671)	198,333
Loss on disposal of capital assets	34,031	-
	4,954,404	5,336,877
Excess of revenue over expenses	\$ (193,441)	\$ 6,912,983

See accompanying notes to financial statements.

# STATEMENT OF CHANGES IN NET ASSETS

Year ended December 31, 2006, with comparative figures for 2005

	INVESTED IN CAPITAL ASSETS	INTERNALLY RESTRICTED RESERVE	UNRESTRICTED	2006 TOTAL	2005 TOTAL (restated note 10)
Balance, beginning of year	\$ 221,954	\$ 4,989,876	\$ 11,250,437	\$ 16,462,267	\$ 9,549,284
Excess (deficiency) of revenue over expenses	(183,889)	—	(9,552)	(193,441)	6,912,983
Investment in capital assets	242,861	—	(242,861)	—	—
Internally restricted reserve (note 4)	—	592,355	(592,355)	—	—
Balance, end of year	\$ 280,926	\$ 5,582,231	\$ 10,405,669	\$ 16,268,826	\$ 16,462,267

See accompanying notes to financial statements.

# STATEMENT OF CASH FLOWS

Year ended December 31, 2006, with comparative figures for 2005

	2006	2005 (restated note 10)
<b>CASH PROVIDED BY (USED IN)</b>		
Operations:		
Excess (deficiency) of revenue over expenses	\$ (193,441)	\$ 6,912,983
Items not involving cash		
Amortization	149,858	106,589
Loss on disposal of capital assets	34,031	—
	(9,552)	7,019,572
Changes in non-cash operating working capital:		
Accounts receivable	(1,720,487)	(2,926,279)
Prepaid expenses and deposit	(6,139)	7,314
Accounts payable and accrued liabilities	(46,327)	1,115,067
Deferred revenue	589,008	(137,057)
	(1,193,497)	5,078,617
<b>INVESTING AND FINANCING</b>		
Purchase of capital assets	(143,924)	(27,709)
Repayment of capital lease obligations	(98,937)	(42,635)
	(242,861)	(70,344)
Increase (decrease) in cash and cash equivalents	(1,436,358)	5,008,273
Cash and cash equivalents, beginning of year	20,666,168	15,657,895
Cash and cash equivalents, end of year	\$ 19,229,810	\$ 20,666,168
Supplementary cash flow information:		
Non-cash transactions:		
Acquisition of assets under capital lease	\$ 224,662	\$ 218,895

See accompanying notes to financial statements.

# NOTES TO FINANCIAL STATEMENTS

Year ended December 31, 2006

## 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 brand owners to carry out their 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 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.

## 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 brand owners on each container sold in the province of B.C. The Corporation records revenue from deposits on containers, net of a provision for 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.

### (c) 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.

### (d) Deferred revenue:

The Company defers revenue related to unredeemed 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 industry average rate of recovery. The determination of such 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 and the percentage of used beverage containers being diverted to recycling depots.

### (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

Year ended December 31, 2006

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

	COST	ACCUMULATED AMORTIZATION	2006 NET BOOK VALUE	2005 NET BOOK VALUE
Office equipment	\$ 225,580	\$ 102,709	\$ 122,871	\$ 157,024
Computer hardware	474,299	130,412	343,887	190,452
Computer software	84,901	53,538	31,363	47,033
Leasehold improvements	59,679	52,212	7,467	3,705
	<u>\$ 844,459</u>	<u>\$ 338,871</u>	<u>\$ 505,588</u>	<u>\$ 398,214</u>

Included in capital assets are assets under capital leases with a cost of \$366,234 (2005 - \$218,895) and accumulated amortization of \$106,938 (2005 - \$31,307).

	2006	2005
Capital assets	\$ 505,588	\$ 398,214
Obligations under capital lease	(224,662)	(176,260)
	<u>\$ 280,926</u>	<u>\$ 221,954</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 \$592,355 (2005 - \$413,678) 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:

2007	\$ 121,931
2008	94,652
2009	22,974
	<u>239,557</u>
Interest (rates vary from 5% to 6%)	14,895
Present value of minimum capital lease payments	<u>\$ 224,662</u>

Interest of \$15,074 (2005 - \$6,534) 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:

2007	\$ 252,517
2008	217,540
2009	217,540
2010	217,540
2011	217,540

# NOTES TO FINANCIAL STATEMENTS

Year ended December 31, 2006

## 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 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	\$ 2

During the year, the Corporation paid \$104,025 (2005 - \$110,939) in Board expenses, which includes fees for some directors as well as reimbursable and meeting room expenses.

## 10. CHANGE IN ACCOUNTING POLICY:

The Company has changed its policy over the timing of recognition of revenue and expenses relating to containers in transit at the end of the year, and the sale of recyclable

material related to these containers. Previously, the Company recognized the deposits and container recycling fees collected by brand owners, as well as an estimate of the sales value of the recyclable materials related to these containers in transit, as revenue upon sale of the containers by the brand owners. The Company also accrued as a liability the estimated deposit refunds, handling fees, transportation costs and other related expenses for containers sold by the brand owners prior to the end of the year but not yet returned for refund.

In the current year, the Company has changed this policy to record deposit refunds and handling fees expenses related to containers in transit when the containers are returned by consumers to depots or retailers, and to record other related costs as they are incurred. The estimated revenue for unredeemed deposits and container recycling fees collected related to these containers is now recognized when the related activities are undertaken and obligations fulfilled. Deposits and container recycling fees collected as of the year-end relating to containers in transit are now recorded as deferred revenue. In addition, revenue from sales of recyclable material is now recorded upon sale and delivery of the materials to the purchaser.

These changes in policy have been applied retrospectively. As a result, the opening net assets for the years ended December 31, 2006 and 2005 have been adjusted as follows:

	2006	2005
Net assets beginning of year, as previously reported	\$ 19,046,735	\$ 12,573,110
Adjustment for change in accounting policy	(2,584,468)	(3,023,826)
Net assets beginning of year, as adjusted	\$ 16,462,267	\$ 9,549,284

As a result of the change in timing of recognition of revenue and expenses, the excess of revenue over expenses for the year ended December 31, 2005 has increased by \$439,358 over the amount previously reported. The excess of revenue over expenses for the year ended December 31, 2006 is \$857,792 more than that which would have been reported under the policy previously in place.

