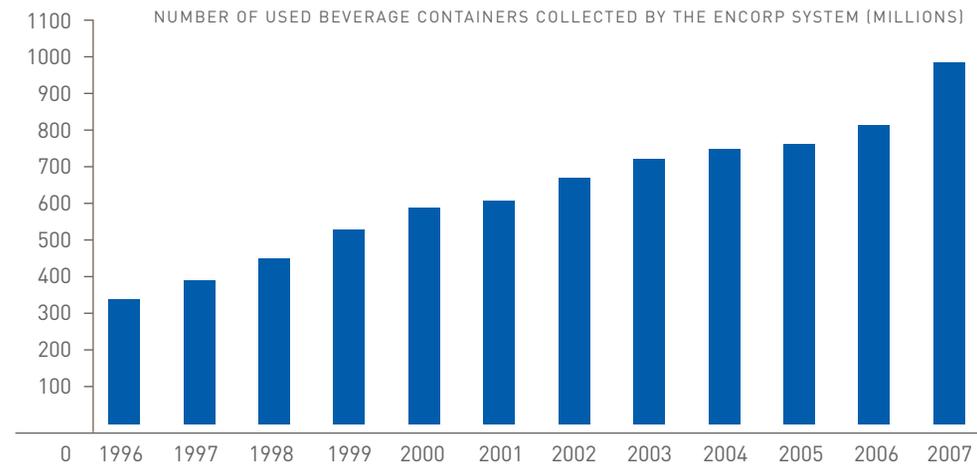


# Encorp Pacific (Canada)

2007 Annual Report



# In 2007 the Encorp system collected and recycled 993 million containers, over 173 million more than in 2006



METRIC TONNES OF MATERIAL RECYCLED		TYPE	CONTAINERS SOLD		CONTAINERS RECOVERED		% RECOVERY RATE	
2007	2006		2007	2006	2007	2006	2007	2006
5,128	5,171	 <b>Aluminum</b>	462,459,324	469,265,503	371,081,316	376,411,420	80.2	80.2
11,087	9,122	 <b>Plastic</b>	477,943,398	431,510,924	347,457,630	311,131,057	72.7	72.1
2,097	2,027	 <b>Polycoat</b>	152,890,583	152,967,570	82,441,166	82,453,737	53.9	53.9
57,344	10,369	 <b>Glass</b>	189,640,306	59,863,323	182,435,223	41,055,555	96.2	68.6
258	283	 <b>Other Metals</b>	7,329,211	8,599,569	3,930,174	4,212,770	53.6	49.0
30	22	 <b>Pouches</b>	13,852,508	9,377,878	5,125,826	3,910,350	37.0	41.7
145	—	 <b>Bag-in-Box Liquor</b>	1,188,435	—	629,547	—	53.0	—
76,089	26,995	<b>TOTALS</b>	1,305,303,765	1,131,584,767	993,100,883	819,174,889	76.1	72.4

Note: Includes alcohol containers effective April 1, 2007

# Message from the Chair and the Chief Executive Officer



*Neil Hastie*

**Neil Hastie**  
President & CEO

*Dan Wong*

**Dan Wong**  
Board Chair

The year 2007 was, as expected, perhaps our most eventful year since the expansion of the Beverage Container Stewardship Program in 1998.

In our 2006 report we set out the crossroads that we anticipated Encorp would encounter in the near future:

- Beverage container collection reaching maturity, with recovery rates in turn reaching a plateau
- Diversifying outside the non-alcohol beverage sector to take on stewardship for beverage alcohol containers and service provider contracts for the BC Dairy Council and the Electronics Stewardship Association of BC
- Ministry of Environment staff approving our new stewardship plan (which in fact occurred on November 29th, 2007) and declaring their intention to review the beverage container regulation in 2008

Viewed at an operational level, each of these developments required Encorp to increase its capacity and undertake new initiatives. The body of this annual report provides significant detail on our actions to accomplish these goals.

Viewed at a policy and strategy level, our success in meeting these challenges reveals the inherent strength of industry product stewardship and the Encorp Pacific business model. The strength of the industry self-managed approach to stewardship lies in its natural flexibility, which enables us to innovate and adapt.

Our governance structure; namely, having the corporation directed by Members (i.e., the BC Bottled Water Association, Canadian Council of Grocery Distributors, Juice Council of British Columbia and Refreshments Canada) rather than shareholders, facilitates the accommodation of new product categories such as

alcoholic beverage containers, represented by the Beverage Alcohol Containers Management Council of BC (BACMC), which appointed Encorp as its stewardship agent in 2007. BACMC represents in aggregate more than 5,000 producers in the wine, spirits and import beer sectors.

In addition, our fundamental guiding principle is that each type of beverage container and therefore the producers who choose to market them are fully responsible for their own costs without cross subsidization from other types of containers or producers. The equity and inherent fairness of this approach gave confidence to the members of BACMC that their interests would be protected within the model and that Encorp, in determining the fees for their containers, would be transparent and accountable.

Taking on new materials such as milk containers for the BC Dairy Council under its voluntary recycling initiative and end of life electronics for the Electronics Stewardship Association of BC under its regulated program required new networks for collection, logistics and separate financial systems.

In both cases, we responded effectively.

Under the Encorp Pacific business model, wherein we contract out all collection and logistics to third parties, we are able to scale up to handle new materials and to achieve economies from this expansion. In addition, our core competencies in financial administration and public education allow us to respond to the needs of new program partners such as the dairy and consumer electronics industries and to allocate our overhead costs to a wider range of materials and across an increased base of revenues.

In summary, industry-led stewardship provides an effective way to expand the range of products diverted from landfill and to avoid the incremental costs of starting and operating new recycling programs for end of life consumer products and packaging. The Encorp business model is a complement to industry product stewardship as it enables us to adapt to new opportunities, thereby providing economies of scale that provide direct benefits to consumers, new producer groups and simultaneously to our founding Members.

Before closing, we want to bring to your attention a significant financial event that occurred in 2007. Our deficit for 2007 came in at \$11.7 million, thereby reducing our accumulated reserves from \$16.3 million to \$4.6 million; below our target range of \$8-10 million. Out of the total deficit of \$11.7 million for the year, \$6.3 million was an additional year-end accounting adjustment to defer revenue for the Beverage Alcohol Containers to account for containers in-transit as a result of consolidation of alcohol containers with non-alcohol containers under our new Stewardship Plan. The treatment of in-transit for the alcohol containers is now consistent with treatment of the non-alcohol containers and this adjustment did not affect Encorp's cash flow position.

Lastly, we would like to thank our staff for their dedication and skillful management in a year of unprecedented business expansion, the Members for their ongoing support, and of course our Board of Directors for their wise and thoughtful counsel throughout the year.

# Management Outlook



In its approved Stewardship Plan, Encorp outlined a number of measures it is undertaking over the next five years to improve performance. The following is a brief summary of how some of these measures were implemented in 2007.

## **CONSUMER ACCESSIBILITY** — Province-wide

**Goal:** The creation of a strong network of Return-It™ depots delivering convenient access, accurate refunds and good customer service to consumers and the community.

### **Initiatives:**

- Depots are constantly assessed to ensure that they are in the right location, have the right layout and equipment, and are promoting themselves to their local market. New depot owners are provided with an extensive training package to ensure their ability to provide quality service at all levels.
- We continuously monitor population and geographic growth in the cities throughout BC and we assess volumes being collected at depots and grocery retailers in order to determine where additional depots are required. Then we advertise available territories on our website.

**2007 Activities:** Encorp has identified and advertised opportunities for additional depots in the City of Vancouver, Victoria, Kelowna and Coquitlam.

## **CONSUMER ACCESSIBILITY** — Vancouver-area

**Goal:** The City of Vancouver has an estimated beverage recycling rate of approximately 50% compared to the provincial rate of approximately 75%. Depot coverage is much less than required, particularly in the City of Vancouver where planning permission has been very difficult to achieve. Encorp's goal is to achieve City of Vancouver staff support for the opening of at least four more depots.

### **Initiatives:**

- Encorp has provided staff support for potential depot operators with locations proposed in Vancouver that require planning permission to operate a bottle depot.
- Financial support has also been provided to secure premises for the duration of the planning process.
- Based on comparisons with other municipalities, the City of Vancouver could support an additional 8 depots, nearly twice the current number.

**2007 Activities:** A new style depot "Generation 3" was opened on Kingsway in Vancouver.

## **CONSUMER AWARENESS** — Province-wide

**Goal:** Maintain a high public awareness of the Return-It™ programs and target those who could be encouraged to change their behavior in favor of recycling beverage containers.

We conduct regular consumer research studies and evaluate industry sales trend information to develop current and high impact awareness and promotional activities on a province wide basis.

### **2007 Activities:**

An extensive report on public awareness activities is contained in the Consumer Awareness section of this report including updates on:

- Multi-family Building Pilot Program
- School Program
- Return-It@Work Pilot Program
- Public Space and Events Program

# Return-It Man



## Return-It Man makes it possible to interact with people

The concept of a mascot to promote recycling grew from the need to find a way to talk to consumers while they were out of their homes. In 2004, water and sports drinks, most often consumed away from home, had increased in sales by 20% while recovery lagged behind with an 8% increase.

The concept was pilot-tested in 2005 with a target of high traffic areas where 18 to 34-year-olds were gathered and consuming sports drinks. The 30 appearances made that year generated a very positive response not only with the target audience but also with younger children and their parents.

Return-It Man makes it possible to interact with people, promoting the concept of recycling containers, answering questions and generally having fun. Return-It Man has now become a crowd-pleaser wherever he goes and has generated a great deal of publicity for the subject of recycling containers.

In the past two years the program has grown to five costumes each with a two person team of performer and handler. In 2007 Return-It Man visited over 600 separate locations or events and interacted with an estimated 34,000 people. The results? Sales of water and sport drinks were up approximately 4% in 2007 but recovery grew by 13%, a complete reversal of the situation for these containers in 2004.



# Depot Update



Just as the network of 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 network. Without the steady revenues provided for handling Encorp containers the majority of depots could not survive. The existence of the network makes possible cost-efficient recovery programs for many other products including other stewardship programs, for materials like cardboard and 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 Columbians with opportunities to participate in many waste diversion programs. Individually, these programs would be difficult and expensive to establish separate from the network.

The major change to the network in 2007 came when Encorp was made the program manager for the end-of-life electronics recycling program established by the Electronics Stewardship Association of BC. By the end of the year there were over 70 sites throughout the province accepting designated electronic products for recycling and expansion of this network will continue throughout 2008.

The voluntary milk container collection program, operated on behalf of the BC Dairy Council, now has over 70 percent of the depot network participating.

The total number of depots in 2007 has increased to over 170, including the newly opened Vancouver Central Return-It™ Depot located on Kingsway and the Tofino Bottle Depot. Also re-opening their doors was the long awaited Hart Return-It™ Depot in Prince George and the Fernie Bottle Depot.

Encorp continued its program for upgrades and improvements to the entire depot system, introducing its "Generation 3" style depots, focusing on improved customer appeal and service. Janice Song, of the Ironwood Bottle & Return-It™ Depot, became the first Encorp certified trainer, taking on the demanding task of training all the new depot operators that are entering the Encorp network of depots.



Vancouver's newest depot on Kingsway - a 'Generation 3' depot

# Quality Assurance Update

## Clear plastic bags keep lightweight container types separate and speed counting



In 2006 the Quality Assurance and Depot Operations departments started a Depot Operator Training Program. 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.

In 2007 the successes of this program continued. Depot performance in quality control improved from a variance of .52% in 2006 to a variance of only .48% in 2007.

In a move designed to help operators be more efficient, changes were made to standard bag counts for several types of containers. For example, gable top containers over 1 Litre had their bag count reduced from 55 to 50 while the number of non-refillable beer and cider bottles in a standard bag was increased from 1100 to 1320 containers.

An increasing difficulty for depot operators is the quantity of home brew beer and wine bottles being returned. These are non-conforming containers as they are not a part of the deposit system. The numbers of these returns have increased to an unacceptable level and depot operators were informed that only containers with an acceptable alcohol label can be returned for refund.



# Consumer Awareness

Continuous improvement is one of our top priorities and we are committed to reach this goal every year. In 2007 Encorp spent over \$1.8 million on targeted marketing initiatives directed specifically toward beverage container recycling. Each initiative was strategically designed to increase recovery. Results show we have achieved that goal. The recovery rate increased by 4.2%, equaling over 173 million more containers kept out of BC's landfills.

The media tracking chart (beside) gives a picture of the extent and complexity of our campaigns, programs and promotions.

2007 C.A. INITIATIVE	TIMING	MARKET	CREATIVE & MEDIA
General beverage container recycling awareness	Year round reminders	Province wide	Brochures in four languages, English, Cantonese, Punjabi, and Korean. 30 sec & 15 sec TV commercials, Depot posters, 30 sec public service announcements
<b>SPECIFIC CONTAINERS</b>			
Aluminum & plastic ≤ 1 litre	June/July/August	Lower Mainland	Karma campaign - interior and exterior transit advertising, 24 Hours newspaper, Return-It™ Man mascot appearances, Radio flights on top 3 Targeted stations
Polycoat - drink box	September/ October	Province wide with emphasis in Lower Mainland	Depot poster, 15 sec TV spot, Retailer coupon, Schools, Community spaces, and Grocery retailer Return-It Man appearances
> 1 litre gable top cartons	April/May	Province wide with emphasis in Lower Mainland	15 sec TV spot, Depot poster, Direct mail piece, High density urban area Return-It™ Man appearances
Wine & liquor	August, December/ January	Province wide with emphasis in Lower Mainland	15 sec TV spot, Depot poster, direct mail, Radio commercials, Depot location flyers supplied to all government liquor stores, Targeted Return-It™ Man appearances
<b>PROGRAMS</b>			
Stewardship Awareness	Periodically throughout the year	Province wide	Series of articles published in the Vancouver Sun, Victoria Times Columnist, Business in Vancouver, Georgia Straight, Kelowna Daily Courier, and most Metro Vancouver community newspapers
Return-It @ Work	Year round office recycling program available in urban areas	City of Vancouver	Web based program with a dedicated service provider. Encorp supplies bins, print materials
Outdoor spaces festivals & events	Year round program, heavy in summer months	Lower Mainland & Fraser Valley	250 branded bins, Partnership with well established charitable organization Return-It™ Man appearances with give aways
Depot marketing programs	May/June	Province wide	Coordinated professional promotions package sold to Depot owners at a reduced rate. Encorp covers over half of the total costs to facilitate
Depot Branding consistency	Year round	Province wide	New signage and material packages available for free to targeted Depot Operators
Return-It™ Man	Year round	Large populated urban areas	5 suits
School Programs	School year	Province wide	Web based recycling program and contest. Encorp supplies bins, print materials, educational videos as well as approved teaching aids

PURPOSE	TARGET MARKET	RESULTS
To ensure the majority of BC residents are aware of the types of beverages and containers that require a deposit paid and refunded when containers are returned for recycling	All residents of BC who consume soft drinks, water, juices, wine and spirits as well as one time use glass beer, cider and coolers	76% Recovery rate 173 million more than last year
To affect the behaviour of the target group increasing the sense of "self responsibility" to recycle these containers	18-44 year olds, 50/50 male/female split, who are young and on the go, mostly living in Multi-family dwellings	80% Recovery rate (aluminum) 70% Recovery rate (plastic) 24.7 million more units than last year
Reach mom and kids, who are the prime purchasers and consumers of this type of beverage container while they are at school, out doing leisure activities as well as when they are shopping	a) 20-40 year old mothers, b) families who pack lunches for work, school or on the go, target people who consume the beverage, c) principle grocery shopper	53.2% Recovery rate 994 thousand fewer units than last year
Sustain increased recovery rate for more than 4 months	Women 35-64, working, income level over \$75,000	67.5% Recovery rate 959 thousand more units than last year
Increase the awareness of depot locations among government liquor store patrons, specifically for those who purchase wine and spirits	50/50 men/women, upper income levels	87.4% Recovery rate 12 million more units than last year
Develop awareness around Industry Product Stewardship and the Encorp Model by publishing a series of easy to understand articles	Municipal and Provincial governments, NGO's, Business leaders, educators in the field, stakeholders etc	Greater understanding of our system within the target group
Expand the program and partner with a well established charitable organization, and a reliable service provider	Business, office leaders, decision makers @ work	United Way recieved donations of over \$400 between Aug - Dec 31 60 offices registered and participating.
Link a service provider with event organizers. Increase convenience to the public while @ play	Active consumers who have places to go and things to see. Influence event organizers to feel that they must have recycling options available	Partnership with Salvation Army, all containers collected are donated. Attended over 50 high profile events
Expand the program outside of the Lower Mainland and Fraser Valley. Offer more tactical programs at good value for operators.	Depot Owners providing a professional consistant message to their customers. Depot owners have the ability to offer prizes and promotions to their customers	35 Depots invested and participated, Encorp contributed over \$85,000
Upgrade the brand and image of Depots to consumers	Depot Owners	100 packages made available @ a cost of over \$60,000 to Encorp
Expand appearances to a year round schedule	Consumers of beverages in BC, target to appropriate campaign in implementation timeline	Visited over 600 locations and had personal interactions with over 34,000 people
Educate and motivate kids and teachers	School aged kids as well as teachers and parents	Collected over 4.3 million containers, gave out \$264,216 in deposit refunds, awarded \$6,000 in prize money, and issued 559 awards in leadership

# Innovation and Partnership



In the nine years since the expansion of the beverage container deposit system, Encorp has built an extensive network of collection facilities and has greatly increased public awareness about the value of returning containers for recycling. Surveys consistently show that the vast majority of the British Columbia public is aware of which containers carry a deposit and are also aware of a convenient place to which they can return them.

Changes in the types of beverage products in the marketplace, the types of people who purchase them and changes in urbanization and lifestyle, resulted in slight decreases within specific beverage types, although the overall recovery rate has shown an increase.

To address this problem Encorp undertook extensive research, including participation in waste composition studies in cooperation with Metro Vancouver. These studies involved the actual counting of beverage containers in waste coming from three key sectors, industrial, commercial and institutional (ICI), multi-family buildings (MF) and single family homes (SF).

## INDUSTRIAL, COMMERCIAL AND INSTITUTIONAL

### Return-It @ Work



To address the problem of container recovery in the workplace Encorp established the Return-It @ Work program in partnership with United Way of the Lower Mainland. United Way has over 800 workplace campaigns and each of them has been encouraged to use container collection as part of their fund raising efforts. Businesses register on-line with Encorp and are provided with branded collection bins for the workplace. Collection services are provided by ABD Solutions with the business receiving a charitable receipt for the refunds donated to United Way.

### Hospitality Industry

In partnership with ABD Solutions and the Bottle Guys, Encorp has continued to expand the collection program for restaurants and other food establishments. The program supplies a lockable outdoor bin into which participating restaurants can place empty beverage containers. Collections can be made at convenient times of day with the refund amounts being credited to the restaurant.

- Based on these findings it was estimated that 209 million beverage containers per year are thrown into the garbage in Metro Vancouver with the ICI sector responsible for 92 million, single family homes for 72 million and multi-family for 45 million units.
- The rest of B.C. accounts for another 100 million containers being landfilled.

Since the greatest number of containers being landfilled are in Metro Vancouver it is this area which has the greatest potential for improved recovery rates. To meet this challenge Encorp developed a variety of new collection systems, incentives and consumer awareness initiatives specifically targeted to the Lower Mainland. These programs are in addition to a continued and enhanced province-wide consumer awareness campaign.

### Outdoor Spaces and Special Events



The many festivals, events and outdoor activities which take place each year can result in large numbers of beverage containers ending up in landfill since convenient recycling options are often lacking. In a new program, delivered in partnership with the Salvation Army, Encorp provided 250 branded event bins, and two event tents, to be used to increase the collection of containers from these events. In 2007 the program participated in 25 events and collected over 400,000 containers. Further expansion of this program is planned for 2008 in partnership with the BC Parks and Recreation Association.



## MULTI-FAMILY HOMES

In mid-2007, Encorp conducted a campaign targeted at multi-family buildings and, in particular, at over 1 Litre size of gable top containers. The program involved television promotion as well as direct mail and posters directed at an affluent audience. To take the message directly to apartment dwellers, Encorp's Return-It™ Man visited 262 multi-family dwellings and distributed over 2400 fliers to individuals. During the program the recovery rate for these containers rose from 59.1% to 69.6% and has remained above the base rate since then.

In 2008, Encorp plans to launch a multi-family pilot program in the City of Richmond in partnership with Sierra Waste Systems. The program will include the provision of several hundred branded collection bins and participation incentives for property managers.

## SINGLE FAMILY HOMES

In addition to expanding existing awareness campaigns targeted at the general public, Encorp implemented programs aimed at specific demographic sectors.

### Single Serve Containers

Realizing that active teens away from home may be prone to disposing of containers rather than recycling them, the program was aimed at young people at play. A mix of appropriate media was used including radio, bus and Skytrain ads, youth-oriented newspapers and theatre ads. Return-It Man was also enlisted to promote the return of single serve containers, particularly aluminum cans and plastic bottles, for recycling. During this event, which took place in June and July, the recovery rates for aluminum cans increased from 83.5% to 84.3% while the rate for single serve plastic bottles increased from 65.6% to 69.3%.

### Drink Boxes

Targeting mothers on the go as well as their kids, this program combined television, in-store materials, posters and handouts along with Return-It Man to promote the recycling of the drink boxes so popular in school lunch bags. During the program Return-It Man visited 51 parks, 64 schools, 20 grocery stores, 21 commercial centres and 16 other locations and handed out advice and brochures.



### School Programs

In 2007 Encorp completed its sixth annual school program which collected a record 4.4 million beverage containers from 98 high schools and 277 elementary schools across the province. Since its inception in the 2000-2001 school year with only 184 elementary schools, the program has collected over 19 million container and has paid deposit refunds to schools of over \$1.1 million. Many more schools participate in our recycling program however do not enter the contest portion. We have provided recycling bins to 1484 schools.

### Depot Promotion

To add additional incentives for consumers to return containers to depots Encorp, in cooperation with a group of Metro Vancouver depots, launched a contest in which consumers returning containers were eligible to win prizes. Each depot had individual prize draws with a grand prize of a barbecue and a digital camera, drawn from all participants.



**For 2008 an even larger promotion involving more depots is planned.**

# Per Capita & Regional Weights



## RETURNS BY REGION SUMMARY

Alcohol & Non-Alcohol Containers\* — January to December 2007

## PER CAPITA RETURNS

REGION NAME		ALUMINUM	PLASTIC	GLASS	POLYCOAT	OTHER	TOTAL	JAN- DEC 2007 Per Capita Container Returns*	JAN- DEC 2006 Per Capita Container Returns
Alberni / Clayoquot	Units(000)	4,113	3,052	1,373	526	74	<b>9,138</b>	282.50	239.30
	Tonnes	56.8	94.5	439.7	13.7	2.8	<b>607.4</b>		
Bulkley / Nechako	Units(000)	5,084	3,085	1,168	798	58	<b>10,193</b>	255.00	197.70
	Tonnes	70.3	94.7	377.1	17.0	2.2	<b>561.2</b>		
Capital Regional District	Units(000)	30,435	27,290	18,026	6,187	648	<b>82,586</b>	225.50	187.00
	Tonnes	420.6	915.8	5,871.3	193.1	40.0	<b>7,440.6</b>		
Cariboo	Units(000)	7,752	5,270	2,259	1,309	109	<b>16,698</b>	253.50	201.00
	Tonnes	107.1	164.4	681.3	26.3	5.1	<b>984.2</b>		
Central Coast	Units(000)	325	127	93	59	11	<b>615</b>	184.90	141.50
	Tonnes	4.5	4.4	35.7	1.4	0.2	<b>46.3</b>		
Central Kootenay	Units(000)	5,348	3,765	3,154	891	67	<b>13,225</b>	220.00	162.70
	Tonnes	73.9	124.5	943.7	23.9	4.9	<b>1,170.8</b>		
Central Okanagan	Units(000)	15,540	15,968	8,761	3,977	344	<b>44,590</b>	251.90	202.80
	Tonnes	214.8	502.9	2,769.8	93.5	19.2	<b>3,600.1</b>		
Columbia Shuswap	Units(000)	5,599	5,080	3,010	924	95	<b>14,708</b>	273.60	203.30
	Tonnes	77.4	156.2	903.2	23.4	6.1	<b>1,166.3</b>		
Comox / Strathcona	Units(000)	10,406	7,700	3,879	1,781	192	<b>23,958</b>	220.20	189.00
	Tonnes	143.8	252.2	1,271.9	47.5	11.2	<b>1,726.5</b>		
Cowichan Valley	Units(000)	9,534	6,878	3,251	1,621	222	<b>21,505</b>	262.40	225.50
	Tonnes	131.8	221.0	1,058.0	43.8	9.2	<b>1,463.8</b>		
East Kootenay	Units(000)	7,176	6,223	2,888	965	97	<b>17,347</b>	293.70	221.30
	Tonnes	99.2	188.5	896.2	25.3	4.9	<b>1,214.1</b>		
Fraser - Fort George	Units(000)	11,851	9,502	3,992	2,090	222	<b>27,657</b>	282.30	230.40
	Tonnes	163.8	294.4	1,173.1	47.6	8.9	<b>1,687.8</b>		
Fraser Valley	Units(000)	27,141	23,532	9,219	6,098	878	<b>66,867</b>	243.70	210.50
	Tonnes	375.1	772.5	2,833.1	140.7	31.1	<b>4,152.5</b>		
Greater Vancouver	Units(000)	155,593	167,813	90,159	42,562	5,249	<b>461,377</b>	205.10	173.50
	Tonnes	2,150.3	5,331.4	28,245.2	1,072.9	208.9	<b>37,008.6</b>		

Continued on next page

\* Alcohol Containers for April - December 2007 only

## RETURNS BY REGION SUMMARY (CONT.)

Alcohol & Non-Alcohol Containers\* — January to December 2007

## PER CAPITA RETURNS

REGION NAME		ALUMINUM	PLASTIC	GLASS	POLYCOAT	OTHER	TOTAL	JAN- DEC 2007 Per Capita Container Returns*	JAN- DEC 2006 Per Capita Container Returns
Kitimat - Stikine	Units(000)	5,096	3,035	977	754	76	<b>9,938</b>	242.00	197.30
	Tonnes	70.4	93.7	313.2	16.7	2.7	<b>496.6</b>		
Kootenay Boundary	Units(000)	3,245	2,602	1,131	544	61	<b>7,583</b>	229.50	190.40
	Tonnes	44.8	82.0	359.0	14.5	3.4	<b>503.8</b>		
Mount Waddington	Units(000)	1,665	925	459	238	8	<b>3,295</b>	268.10	200.50
	Tonnes	23.0	30.0	149.9	5.5	1.0	<b>209.5</b>		
Nanaimo	Units(000)	12,876	11,136	5,604	2,209	310	<b>32,136</b>	217.90	182.90
	Tonnes	178.0	356.2	1,826.4	62.5	18.2	<b>2,441.2</b>		
North Okanagan	Units(000)	9,905	9,564	4,175	1,731	190	<b>25,565</b>	307.80	249.20
	Tonnes	136.9	305.2	1,267.5	46.9	11.7	<b>1,768.1</b>		
Northern Rockies	Units(000)	782	640	198	91	1	<b>1,712</b>	271.20	223.00
	Tonnes	10.8	17.5	55.6	2.0	0.1	<b>86.0</b>		
Okanagan - Similkameen	Units(000)	8,268	7,317	4,087	1,423	146	<b>21,242</b>	250.40	199.20
	Tonnes	114.3	238.7	1,349.5	36.4	10.3	<b>1,749.1</b>		
Peace River	Units(000)	7,099	5,360	2,115	1,050	126	<b>15,750</b>	252.50	209.60
	Tonnes	98.1	160.9	623.0	24.2	4.3	<b>910.5</b>		
Powell River	Units(000)	2,022	1,452	714	341	30	<b>4,558</b>	218.90	182.10
	Tonnes	27.9	48.9	237.2	8.4	2.3	<b>324.7</b>		
Skeena - Queen Charlotte	Units(000)	3,022	1,685	672	437	41	<b>5,857</b>	284.20	229.80
	Tonnes	41.8	53.5	215.9	10.1	1.6	<b>322.9</b>		
Squamish - Lillooet	Units(000)	3,480	3,620	3,059	697	51	<b>10,906</b>	289.60	215.50
	Tonnes	48.1	111.8	975.4	18.6	2.5	<b>1,156.4</b>		
Sunshine Coast	Units(000)	2,391	1,828	1,575	437	42	<b>6,272</b>	210.60	165.70
	Tonnes	33.0	63.1	531.7	12.9	3.8	<b>644.6</b>		
Thompson - Nicola	Units(000)	15,334	13,011	6,436	2,704	338	<b>37,823</b>	289.80	239.30
	Tonnes	211.9	407.7	1,941.1	68.8	16.2	<b>2,645.7</b>		
<b>Total Units(000)</b>		<b>371,081</b>	<b>347,458</b>	<b>182,435</b>	<b>82,441</b>	<b>9,686</b>	<b>993,101</b>	<b>PROVINCE PER CAPITA TOTALS</b>	
<b>Total Kg Tonnes</b>		<b>5,128.3</b>	<b>11,086.5</b>	<b>57,344.5</b>	<b>2,097.4</b>	<b>432.5</b>	<b>76,089.2</b>	<b>226.7</b>	<b>189.9</b>

# Environmental Report



## What once was old is new again...

Recycled products can be found everywhere in a variety of goods and uses. Here are few examples of how your old beverage containers are converted into new and valuable products :

- Virtually all recycled aluminum cans are made back into new beverage containers. About 50% of every aluminum can on store shelves is made from aluminum that has been recycled at least once.
- Plastic, primarily PET (polyethylene terephthalate), is cleaned and pelletized for use in a variety of new products including beverage and other liquid product containers, as well as fibre for clothing, carpets, and strapping materials.
- Glass is crushed for use in new bottles, building insulation, construction products, and sand blasting medium.
- Polycoat containers are pulped and the high quality paper fibre is removed for use in toilet tissue, cardboard boxes and other paper products.

### MORE THAN JUST WASTE REDUCTION...

Not only does recycling divert useful materials from landfills, but it also saves energy. With growing pressure on energy systems, recycling is a major contributor to energy conservation. Energy is saved by reducing the energy demands associated with acquiring raw materials then transporting and processing them into usable materials. Although recycling also requires energy for transportation and processing, the demand is less and overall net savings are realized.

Material	% Energy Savings from Use of Recycled Inputs for Manufacturing of Material
Aluminum	93%
Plastic	86%
Pouches/Bag-in-Box	53%
Glass	34%
Bi-Metal	82%
Polycoat	53%

### ENCORP'S 2007 CONTRIBUTION...

In 2007, Encorp collected and had over 76,000 tonnes of material recycled. Although exact energy savings depend on distances and processes, using North American averages provided by the US Environmental Protection Agency (EPA) , we can estimate that recycling those materials saved approximately 599 thousand megawatt hours (MWh) of electricity – enough to power all the homes in the city of Victoria, BC (41,000) for an entire year!

Material	Tonnes Collected	Energy Savings (MWh)
Aluminum	5,128	342,835
Plastic	11,087	189,623
Pouches/Bag-in-Box	175	885
Glass	57,344	49,144
Bi-Metal	258	6,279
Polycoat	2,097	10,599
<b>Total</b>	<b>76,089</b>	<b>599,364</b>

### ENERGY SAVINGS ALSO MEANS EMISSION SAVINGS...

The burning of fossil fuels in the production of energy also has the undesirable effect of releasing greenhouse gases into the atmosphere, which contributes to climate change. In addition, some chemical processes during the manufacture of materials also release greenhouse gases. As societies everywhere grapple with the challenge of climate change, recycling can help to reduce mankind's "carbon footprint". The energy saved through the recycling of materials collected by Encorp can be converted into tonnes of carbon dioxide equivalent (the common measure of greenhouse gases), based on the EPA Waste Reduction Model, which calculates emissions based on average distribution of fuels consumed along the production process.

In total, Encorp's activities in 2007 contributed to the reduction of about 126 thousand tonnes of CO2 equivalent being released into the atmosphere – the equivalent of taking 27,000 vehicles off the road for a year.

Material	Tonnes CO2 equivalent reduced
Aluminum	76,919
Plastic	18,724
Pouches/Bag-in-Box	677
Glass	19,966
Bi-Metal	1506
Polycoat	8,116
<b>Total</b>	<b>125,909</b>

i Price Waterhouse Coopers Sources of Information: Statements taken from Encorp Pacific Draft 2007 Annual Report.

ii Percentages represent life-cycle energy savings of producing materials using recycled inputs compared with virgin inputs as a percentage of energy requirements using virgin inputs. US EPA, *Solid Waste Management and Greenhouse Gases* (2002). Exhibits 2-3 to 2-6.

## ENCORP'S OWN CARBON FOOTPRINT...

Collecting, transporting and recycling beverage containers does use energy and, although the end result is still the significant saving noted, Encorp is constantly examining ways to use less energy and produce less emissions.

Transporting empty containers is an energy intensive business when measured by weight since a large share of transported volume is air. Since its inception, Encorp has sought innovative ways to reduce transportation costs and environmental impacts. One method has been to use "backhaul" transport wherever possible. An example is the use of grocery delivery vehicles, which typically return to the warehouse mostly empty. These vehicles have been contracted to collect containers from depots and take them to processing sites making productive use of an otherwise wasted return journey.

In addition to "back haul" transport, Encorp has undertaken a number of new measures to further reduce our transportation-related environmental footprint, including:

- The introduction of 13 new low-emission trucks for use in the Lower Mainland in partnership with our transportation contractors
- Extending the box on 5 tonne trucks, increasing the carrying capacity by 11%
- Field testing a new "mini" megabag for plastic containers which holds three times the volume of previous bags and requires less handling

These measures have allowed Encorp to reduce individual transporter pickup at depots and beverage retailers by about 5% - further reducing environmental impacts.

Testing has also been conducted on two new ideas that are intended to improve efficiency and reduce emissions:

- Compacting at depots – compacting at depots has been discussed for a long time, but until recently the equipment required was unsuitable in a depot environment and very expensive to purchase and operate. A new type of compactor will be tested at Encorp's Quality Assurance Centre in 2008 with a planned depot test to follow.
- Evening and weekend pickup at depots – a schedule of pickups outside normal business hours would help transporters avoid traffic congestion, with a consequent reduction in emissions, as well as speed up loading since there would be no conflict with depot customer requirements.

While both of these concepts will require additional research and consultation with depots before being put into practice, Encorp is committed to constantly identifying and implementing measures that will make our recycling operations more energy efficient.

In future annual reports, we will further document the Encorp system's carbon footprint by base lining energy use and production of emissions.

## REDUCTION

The first tenet of the pollution prevention hierarchy is reduction; using less material to achieve the same results. The beverage industry has always been a leader in trying out new forms of packaging and improving on existing ones.

Aluminum cans – In the past 30 years the weight of a standard aluminum beverage can has dropped by 40%, by 8% in the last 10 years alone.

PET plastic bottles – Rapidly becoming the most popular container for beverages, PET bottles have also been losing weight. One beverage producer uses 2 litre bottles which are 28% lighter than the ones used 25 years ago. Overall, the weight reduction for PET bottles over the past decade or so ranges from 8.5% to 40%. Five hundred milliliter water bottles now weigh as little as 12.5 grams, a 20% reduction from the previous design. On the horizon is a 500ml PET bottle which tips the scales at just 9.9 grams.

Non-refillable glass bottles have also joined the weight loss parade, now weighing 25% less than they did 20 years ago. One way glass bottles use much less glass, and weigh much less, than refillable ones.

iii US EPA, Waste Reduction Model, Version 8 (5/06)

iv US EPA, Waste Reduction Model, Version 8 (5/06); US EPA, *Solid Waste Management and Greenhouse Gases* (2002). Exhibits 2-3 to 2-6.

# Stewardship Program



The Stewardship Plan submitted by Encorp to the Ministry of Environment in October 2006 was approved in November 2007. This amended plan was a requirement of the Recycling Regulation for all established industry product stewardship agencies.

The amended version met the additional requirements of the Recycling Regulation including consultation with stakeholders on the development of the plan.

Other requirements in the Regulation codified actions which have been Encorp practice for some time.

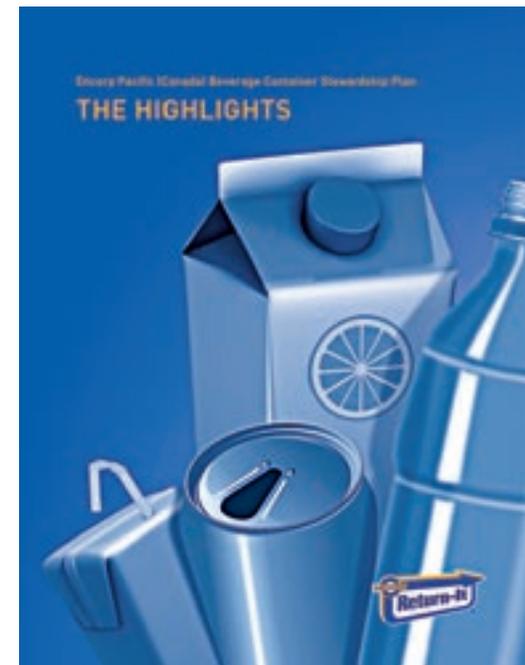
These include:

- Stakeholder input in the implementation and operation of the program, which is the function of the Encorp Advisory Committee
- Annual, publicly-available, audited financial statements and operational reports which Encorp has provided since 2001

Additional requirements in the Regulation include reports from producers on their efforts to reduce environmental impacts throughout the products' life cycles and how

the products have been managed according to the Pollution Prevention Hierarchy. The major changes to the Plan were setting out the range of forward looking initiatives being undertaken to achieve continuous improvement and secondly, the inclusion of beverage alcohol containers, formerly the responsibility of the B.C. Liquor Distribution Branch, as part of Encorp's container stewardship responsibilities. Until this inclusion, Encorp's involvement with beverage alcohol containers was that of a contractor to the BCLDB. With the formation of the Beverage Alcohol Containers Management Council of BC, a non-profit association of beverage alcohol producers and brandowners, and their agreement with Encorp to become the steward, recovery rates for these containers, and other pertinent information, will now be included in all reports published by Encorp.

The approved Stewardship Plan is available for viewing and downloading on the Encorp website.



# Industry Product Stewardship in BC

## THE FUNDAMENTAL PRINCIPLE

The responsibility for establishing, operating and financing recovery and recycling systems for end-of-life consumer products and packaging is to be assumed by the producers and consumers of those products.

## OUR EXPERIENCE

From its inception as Encorp Pacific Inc. in 1994, through a corporate restructuring and massive expansion in 1998, Encorp Pacific (Canada) has operated as a private company providing services which are required by provincial regulation. This system has recovered and recycled over 8 billion used beverage containers at a rate now exceeding 1 billion per year. This system has provided a high level of consumer convenience with a minimum impact on consumer costs. It has also diverted thousands of tonnes of material away from land fill and into new uses which, in turn, saves enormous amounts of energy.

Due to its unique governance structure, Encorp has been able to provide an equitable level of representation and service to its hundreds of brand owners which range in size from the smallest owner-operated businesses to the largest multi-national companies in the world. Its operations are subject to a level of public transparency unmatched by any privately-owned company and a level of customer focus and response that would be a challenge for any government to attain.

Please visit [encorp.ca](http://encorp.ca) for a complete, up-to-date list of all Encorp brandowners

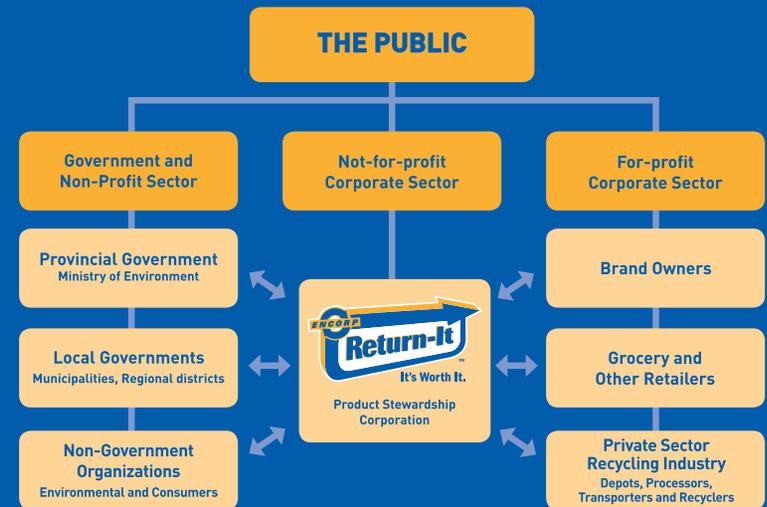
## WHAT WE HAVE LEARNED

Through extensive planning, and through the hard lessons of experience, Encorp has developed a system of governance and operations which serves the public well, while, at the same time, balances the interests of government, the private sector and non-government environmental organizations.

## WHERE WE CAN APPLY OUR LESSONS

Through a changing public attitude towards the environment, which is fed by a constant stream of reports and studies showing the need for better environmental performance, there is no longer serious opposition to the idea that society must take greater responsibility for its use of resources. A key element in improving the use of resources is to recover materials from end-of-life products for reuse, and to prevent potentially harmful substances from escaping into the environment.

Where the debate now lies is in the exact manner by which such programs should be delivered. An element of public distrust, combined with the fundamental competitive nature of business, makes a classic private-sector response unworkable. Similarly, past experience with government-run programs, of all types, generates great resistance from the private sector to that option. The Encorp model for Industry Product Stewardship provides useful concepts which can be applied to develop new organizations across a wide range of material streams each of which has a single focus – brandowners and producers taking responsibility to improve material recovery performance.



## PRINCIPLES FOR PRODUCT STEWARDSHIP

1. Producer-User Responsibility
  - costs not downloaded to local governments
2. Level Playing Field
  - backdrop regulation obligating all producers within a product category
3. Results Based
  - methods and programs developed by the corporation
4. Transparency & Accountability
  - independently audited and publicly available financial statements

# Financing the System

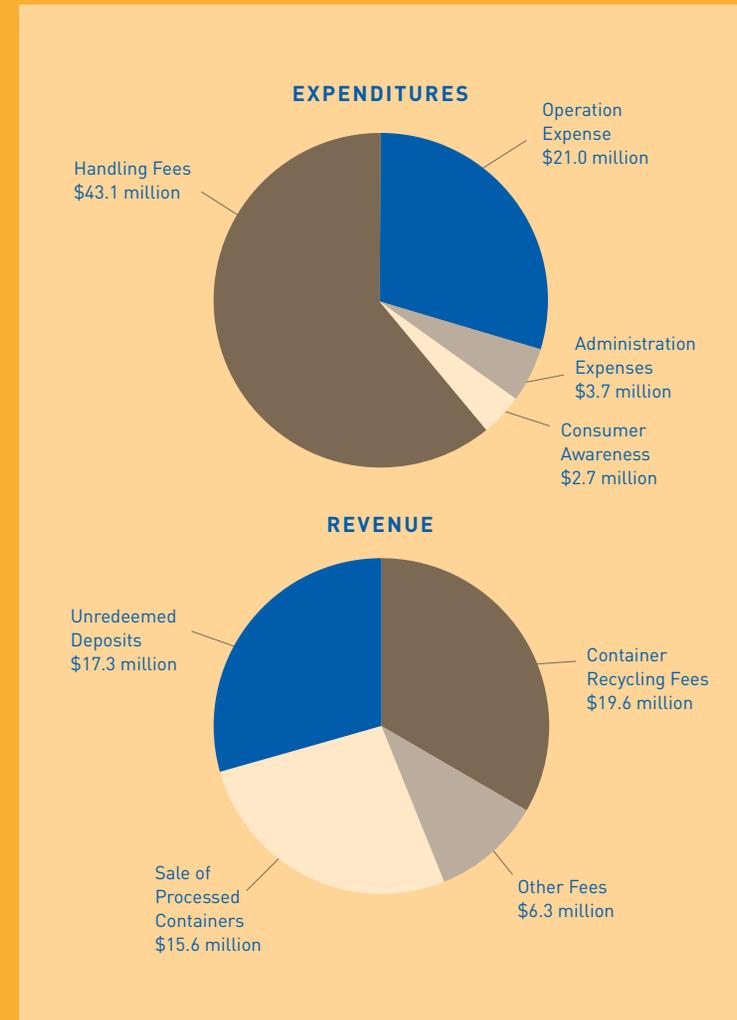


## WHERE THE MONEY COMES FROM: [REVENUES]

- 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 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.



# Financing the System

## CONTAINER RECYCLING FEE

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

CRF included in retail price until spring 2000 CRF shown separately by most grocery retailers after spring 2000

CONTAINER TYPE	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 </tr			

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

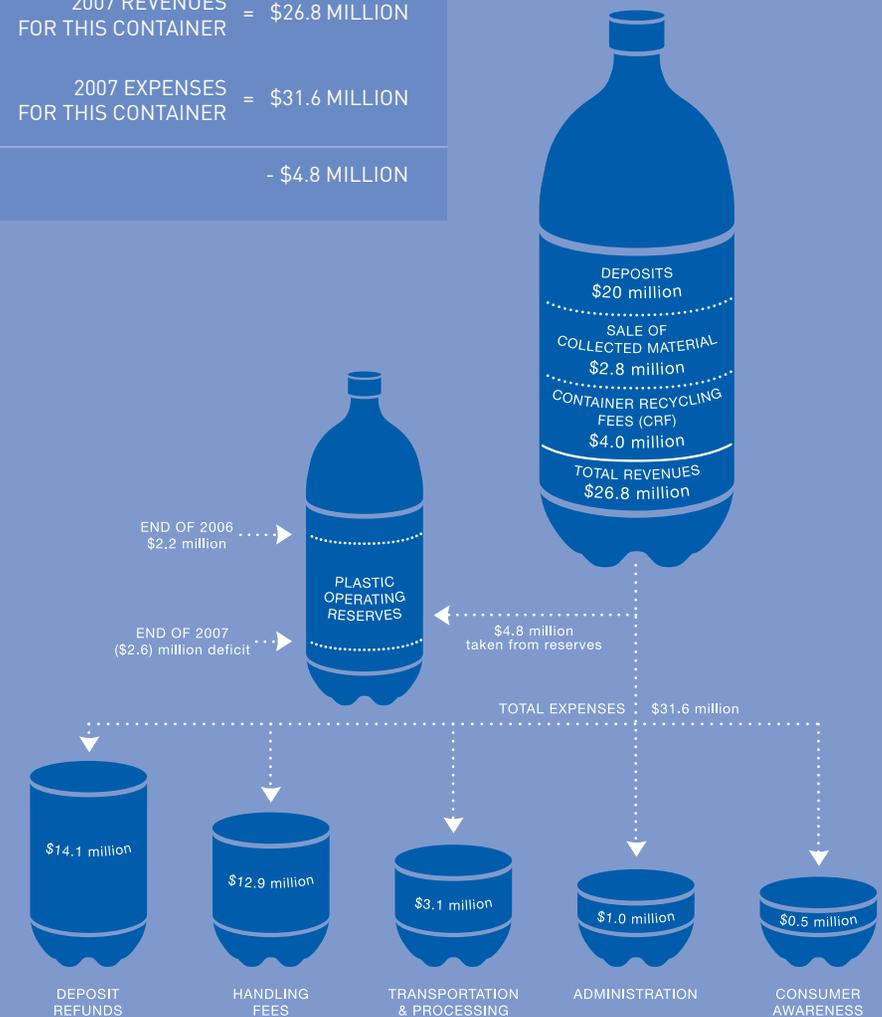
## PLASTIC - UP TO 1L ACCOUNT

DECEMBER 31, 2007

2007 REVENUES FOR THIS CONTAINER = \$26.8 MILLION

2007 EXPENSES FOR THIS CONTAINER = \$31.6 MILLION

- \$4.8 MILLION



# Reserves



	2005 BALANCE	2006 OPERATING	2006 BALANCE	2007 OPERATING	2007 BALANCE
Operating Reserve	\$ 11,472,391	\$ (785,796)	\$ 10,686,595	\$ (11,865,779)	\$ (1,179,184)
Restricted Reserve	4,989,876	592,355	5,582,231	201,290	5,783,521
<b>Total Reserve</b>	<b>\$ 16,462,267</b>	<b>\$ (193,441)</b>	<b>\$ 16,268,826</b>	<b>\$ (11,664,489)</b>	<b>\$ 4,604,337</b>

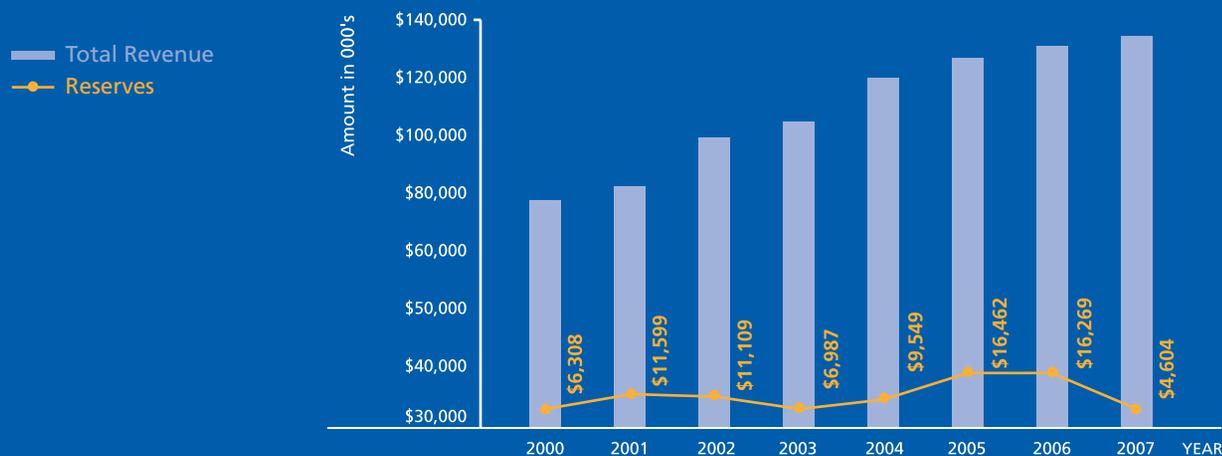
Any funds remaining after all expenses are paid are placed into reserves.

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 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, we reduce the reserve by increasing spending on activities designed to improve the recovery rate for a specific container type.

The table shows the changes in the reserves over the past years.

## ENCORP PACIFIC (CANADA) TOTAL REVENUE VS RESERVES

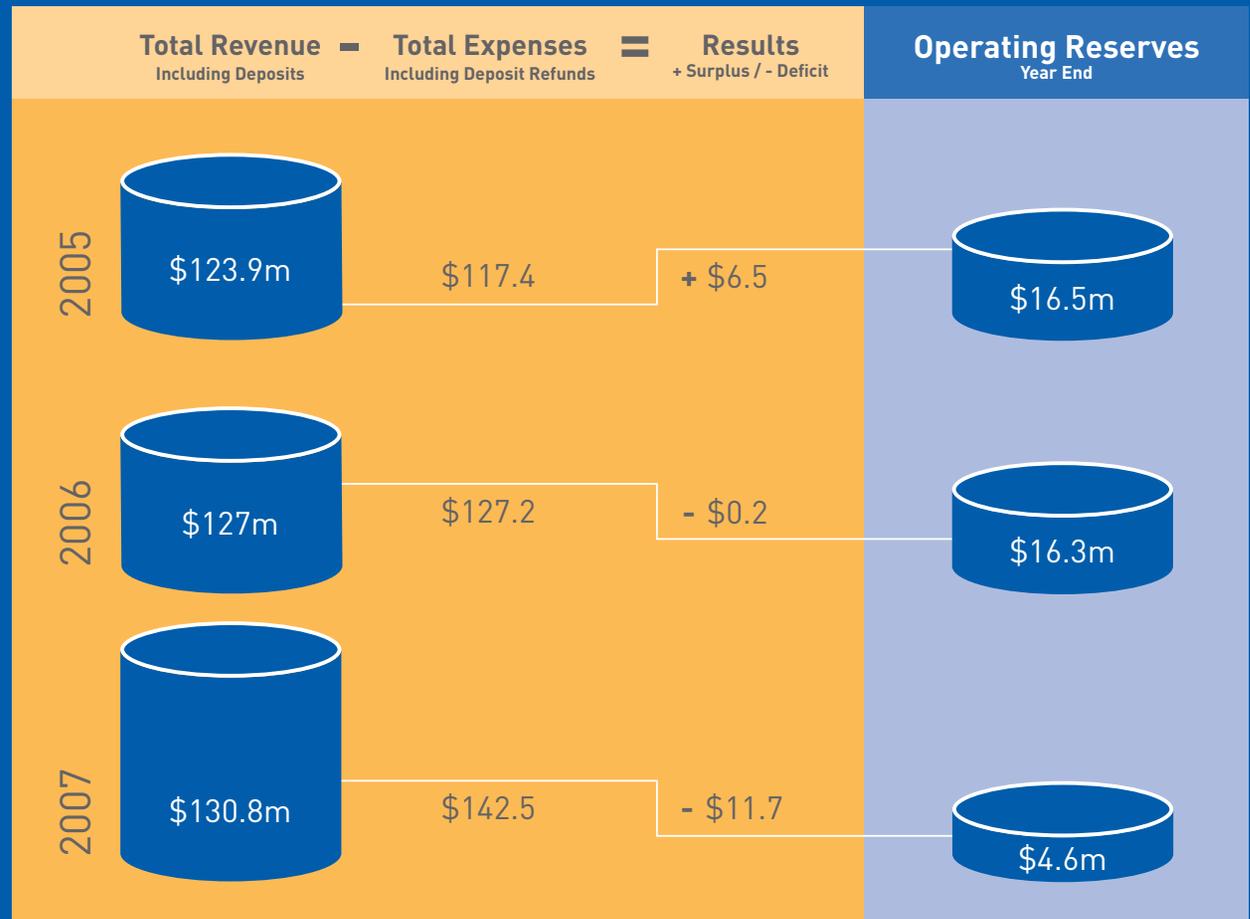


# Management Of Operating Reserves

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

Over the past three years indicated in the chart, Encorp's operating reserves have been reduced significantly. These reserves have been used to fund system costs that may otherwise have been reflected in consumer prices.

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



# Encorp Governance

Encorp places great emphasis on its governance model in order to achieve the high standards of accountability and transparency which will enable it to meet its responsibilities as an Industry Product Stewardship corporation.

## **BOARD STRUCTURE**

The nine person Board is made up of nominees of the four key industry sectors: two directors appointed by Refreshments Canada representing the major bottlers in Canada, one each appointed by the Canadian Bottled Water Association and the Juice Council of BC and two appointed by the Canadian Council of Grocery Distributors representing the major retail grocery stores. In addition, the Board has two unrelated directors with no connection to any aspect of the beverage industry. As well, the President and CEO is a director.

The Board determines the company's strategy and policies, sets objectives for the CEO, approves budgets and fees and discharges its fiduciary obligations to the 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.

In addition to its structure, Encorp's governance model incorporates a number of values which guide the functioning of the Board:

## **ACCOUNTABILITY**

A fundamental part of Encorp's commitment to accountability is a set of policies and practices codified in a Board Manual for Directors prepared by one of Canada's leading experts on corporate and not-for-profit governance. The policies cover 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 policies also set 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 that meet regularly to assist the Board in discharging its fiduciary obligations:

**Audit** – Charged with overseeing financial reporting, assessing the company's risk and control environment and evaluating internal control and the independent audit processes. The committee is chaired by an unrelated director.

**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.



### Encorp Pacific (Canada) Board of Directors 2007

L to R Dale Parker, Anthony Van Heyningen, Neil Hastie, Dan Wong, David Ryzebol, Liisa O'Hara, Justin Sherwood  
Missing: Dan Karr, Neil Antymis

**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. The committee is chaired by an unrelated director.

**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, Government Affairs, The Pepsi Bottling Group [Canada] Co.</i>	Refreshments Canada	<i>Audit / Compensation</i>
Neil Hastie	<i>President and CEO, Encorp Pacific (Canada)</i>	Inside director	<i>Nominating</i>
Dan Karr	<i>Regional Director, Western Canada, Canadian Springs</i>	British Columbia Bottled Water Association	<i>Audit / 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>
Anthony Van Heyningen	<i>Acting Executive Director, Refreshments Canada</i>	Refreshments Canada	<i>Governance / Nominating</i>

# Advisory Committee

## 2007 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 2007 at which time Committee members were able to question Encorp management on various aspects of the budget, financial statements and consumer awareness programs. Of particular interest to the Committee was the process used to manage the reduction of Encorp's operating reserves and the impact this reduction may have in the coming years.

In a practice not common in similar organizations, Encorp's Advisory Committee is shown the draft budget in advance of it being presented to the Board of Directors. This process enables Encorp's management team to receive comments and suggestions which are then included in their presentation of the draft budget to the Board.

In 2007, Committee members were briefed on the electronics recycling program, for which Encorp is the service provider, prior to its launch and provided feedback to Encorp afterwards. The Committee was also briefed on the transfer of stewardship responsibilities for alcohol beverage containers to Encorp from the BC Liquor Distribution Branch.

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

Respectfully submitted



Al Lynch  
Chair Advisory Committee



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

Al Lynch (Chair)	North Shore Recycling
Linda Barnes	City of Richmond
Pat Fitzgerald	University of British Columbia
Ken Lyotier	United We Can Depot
Brock MacDonald	Recycling Council of British Columbia
Janice Song	Ironwood Bottle Depot
Reinhard Trautmann	Regional District of Central Kootenay
Catarina Wong	Coremark International Inc.
Natalie Zigarlick	British Columbia Water and Waste Association

# 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 2, 2008



**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) (the "Corporation") as at December 31, 2007 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, 2007 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 large, stylized, handwritten font, with 'LLP' in a smaller, simpler font to the right.

Chartered Accountants

Burnaby, Canada

March 27, 2008

# Statement of Financial Position

Year ended December 31, 2007 with comparative figures for 2006

	2007	2006
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 9,295,649	\$ 19,229,810
Accounts receivable	7,701,424	6,187,270
Prepaid expenses and deposit	45,954	22,339
	17,043,027	25,439,419
Capital assets (note 3)	637,298	505,588
	\$ 17,680,325	\$ 25,945,007
<b>LIABILITIES AND NET ASSETS</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 5,813,028	\$ 4,576,833
Deferred revenue	7,149,525	4,874,686
Current portion of obligations under capital leases	94,652	121,931
	13,057,025	9,573,450
Obligations under capital leases (note 6)	18,783	102,731
	13,075,988	9,676,181
<b>NET ASSETS</b>		
Invested in capital assets (note 3)	523,863	280,926
Internally restricted reserve (note 4)	5,783,520	5,582,231
Unrestricted	(1,703,046)	10,405,699
	4,604,337	16,268,826
	\$ 17,680,325	\$ 25,945,007

Commitments (note 7)

See accompanying notes to financial statements.

Approved on behalf of the Board:

  
Director

  
Director

# Statement Of Operations

Year ended December 31, 2007 with comparative figures for 2006

	2007	2006
<b>REVENUE</b>		
Deposits on containers	\$ 89,330,760	\$ 83,806,563
Deposit refunds	(72,005,688)	(65,951,436)
	17,325,072	17,855,127
Container recycling fees	19,619,449	12,950,203
Contract fees	6,270,766	14,229,148
Sale of recyclable materials	15,630,672	15,253,181
Other	740,571	824,021
	59,586,530	61,111,680
<b>DIRECT OPERATIONS EXPENSES</b>		
Handling fees	43,073,597	38,211,744
Depot operations	358,976	331,743
Transportation and processing fees	20,607,721	17,807,230
	64,040,294	56,350,717
<b>OTHER EXPENSES</b>		
General and administrative	3,369,295	2,978,860
Consumer awareness	2,697,651	1,864,326
Amortization	368,087	149,858
Foreign exchange loss (gain)	775,692	(72,671)
Loss on disposal of capital assets	-	34,031
	7,210,725	4,954,404
Deficiency of revenue over expenses	\$ [11,664,489]	\$ [193,441]

See accompanying notes to financial statements.

# Statement Of Changes In Net Assets

Year ended December 31, 2007 with comparative figures for 2006

	INVESTED IN CAPITAL ASSETS	INTERNALLY RESTRICTED RESERVE	UNRESTRICTED	2007 TOTAL	2006 TOTAL
Balance, beginning of year	\$ 280,926	\$ 5,582,231	\$ 10,405,669	\$ 16,268,826	\$ 16,462,267
Deficiency of revenue over expenses	(368,087)	-	(11,296,402)	(11,664,489)	(193,441)
Investment in capital assets	611,024	-	(611,024)	-	-
Internally restricted reserve (note 4)	-	201,289	(201,289)	-	-
Balance, end of year	\$ 523,863	\$ 5,783,520	\$ (1,703,046)	\$ 4,604,337	\$ 16,268,826

See accompanying notes to financial statements.

# Statement of Cash Flows

Year ended December 31, 2007 with comparative figures for 2006

	2007	2006
<b>CASH PROVIDED BY (USED IN)</b>		
Operations:		
Deficiency of revenue over expenses	\$(11,664,489)	\$ (193,441)
Items not involving cash:		
Amortization	368,087	149,858
Loss on disposal of capital assets	-	34,031
	(11,296,402)	(9,552)
Changes in non-cash operating working capital:		
Accounts receivable	(1,514,154)	(1,720,487)
Prepaid expenses and deposit	(23,615)	(6,139)
Accounts payable and accrued liabilities	1,236,195	(46,327)
Deferred revenue	2,274,839	589,008
	(9,323,137)	(1,193,497)
<b>INVESTING AND FINANCING</b>		
Purchase of capital assets	(499,797)	(143,924)
Repayment of obligations under capital leases	(111,227)	(98,937)
	(611,024)	(242,861)
Decrease in cash and cash equivalents	(9,934,161)	(1,436,358)
Cash and cash equivalents, beginning of year	19,229,810	20,666,168
Cash and cash equivalents, end of year	\$ 9,295,649	\$ 19,229,810
Supplementary cash flow information:		
Non-cash transactions:		
Acquisition of assets under capital lease	\$ -	\$ 224,662

See accompanying notes to financial statements.

# Notes to Financial Statements

Year ended December 31, 2007

## 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 for not-for-profit organizations, 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 Corporation defers revenue related to unredeemed deposits and container recycling fees received prior to the year end for which the related deposit refunds, handling

fees and transportation and processing fees will be paid for container returns subsequent to year end. The amount deferred is estimated based on the 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	5 years straight-line
Computer hardware	3 years straight-line
Computer software	3 years straight-line
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, 2007

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONT):

### (g) Financial instruments:

Effective January 1, 2007, the Corporation adopted the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3855, Financial Instruments – Recognition and Measurement and CICA Section 3861, Financial Instruments – Disclosure and Presentation, and CICA Section 3865, Hedges. These new Handbook Sections provide comprehensive requirements for the recognition and measurement of financial instruments, as well as standards on when and how hedge accounting may be applied.

Under these new standards, all financial assets and liabilities are classified into one of the following five categories: held for trading, held-to-maturity, loans and receivables, available-for-sale financial assets or other financial liabilities. All financial instruments, including derivatives, are included on the balance sheet and initially measured at fair market value.

Subsequent measurement and recognition of changes in fair value of financial instruments depend on their initial classification. Held for trading financial investments are measured at fair value and all gains and losses are included

in net income in the period in which they arise. Available-for-sale financial instruments are measured at fair value with revaluation gains and losses initially accounted for as changes in net assets. Loans and receivables, held-to-maturity financial investment and other financial liabilities are measured at amortized cost using the effective interest rate method.

The standards require derivative instruments to be recorded as either assets or liabilities measured at their fair value unless exempted from derivative treatment as normal purchase and sale. Certain derivatives embedded in other contracts must also be measured at fair value. All changes in the fair value of derivatives are recognized in operations unless specific hedge criteria are met, which require that an entity must formally document, designate and assess the effectiveness of transaction that received hedge accounting.

The adoption of these standards has been applied prospectively resulting in no changes to the Corporation's assets or liabilities balances, net earnings or the opening amounts of net assets for the year ended December 31, 2007. The Corporation does not hold any derivative instruments as of December 31, 2007.

### (h) Future accounting standards:

Effective January 1, 2008, the Corporation will be adopting the following new sections of the CICA Handbook that were issued but not yet effective as of December 31, 2007:

Sections 3862 and 3863, Financial Instruments – Disclosures and Presentation, respectively, establish standards for the presentation of financial instruments and non-financial derivatives, and require additional disclosure of the nature and extent of an entity's exposure to risks arising from financial instruments and how the entity manages those risks.

### (i) Comparative figures:

Certain comparative figures have been reclassified to conform with the financial statement presentation adopted in the current year.

# Notes to Financial Statements

Year ended December 31, 2007

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

	COST	ACCUMULATED AMORTIZATION	2007 NET BOOK VALUE	2006 NET BOOK VALUE
Office equipment	\$ 313,707	\$ 178,416	\$ 135,291	\$ 122,871
Computer hardware	793,806	379,577	414,229	343,887
Computer software	114,480	80,923	33,557	31,363
Leasehold improvements	122,265	68,044	54,221	7,467
	<u>\$ 1,344,258</u>	<u>\$ 706,960</u>	<u>\$ 637,298</u>	<u>\$ 505,588</u>

Included in capital assets are assets under capital leases with a cost of \$366,234 (2006 - \$366,234) and accumulated amortization of \$272,913 (2006 - \$106,938).

	2007	2006
Capital assets	\$ 637,298	\$ 505,588
Obligations under capital leases	(113,435)	(224,662)
	<u>\$ 523,863</u>	<u>\$ 280,926</u>

# Notes to Financial Statements

Year ended December 31, 2007

#### 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 \$201,290 (2006 - \$592,355) 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:

2008	\$94,652
2009	22,974
	<hr/>
	117,626
Interest (rates vary from 5% to 6%)	4,191
Present value of minimum capital lease payments	<hr/>
	\$ 113,435

Interest of \$9,698 (2006 - \$15,074) 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:

2008	\$217,540
2009	217,540
2010	217,540
2011	176,770

#### 8. RELATED PARTIES:

(a) 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	<hr/>
	\$ 2

(b) During the year, the Corporation paid \$118,750 (2006 - \$104,025) in Board expenses, which includes fees for some directors as well as reimbursable and meeting room expenses.

#### 9. CHANGE IN ACCOUNTING POLICY:

The Corporation has changed its amortization policy on capital assets from declining balance to straight-line to more accurately reflect the useful lives of the assets. This change has been applied retrospectively with no material effect on the amounts previously reported for the net book value of capital assets, depreciation expense and net assets invested in capital assets.

The change in policy has resulted in an increase of approximately \$156,600 to the amounts recorded for amortization expense and the deficiency of revenue over expenses over the amount that would have been reported under the policy previously in place.

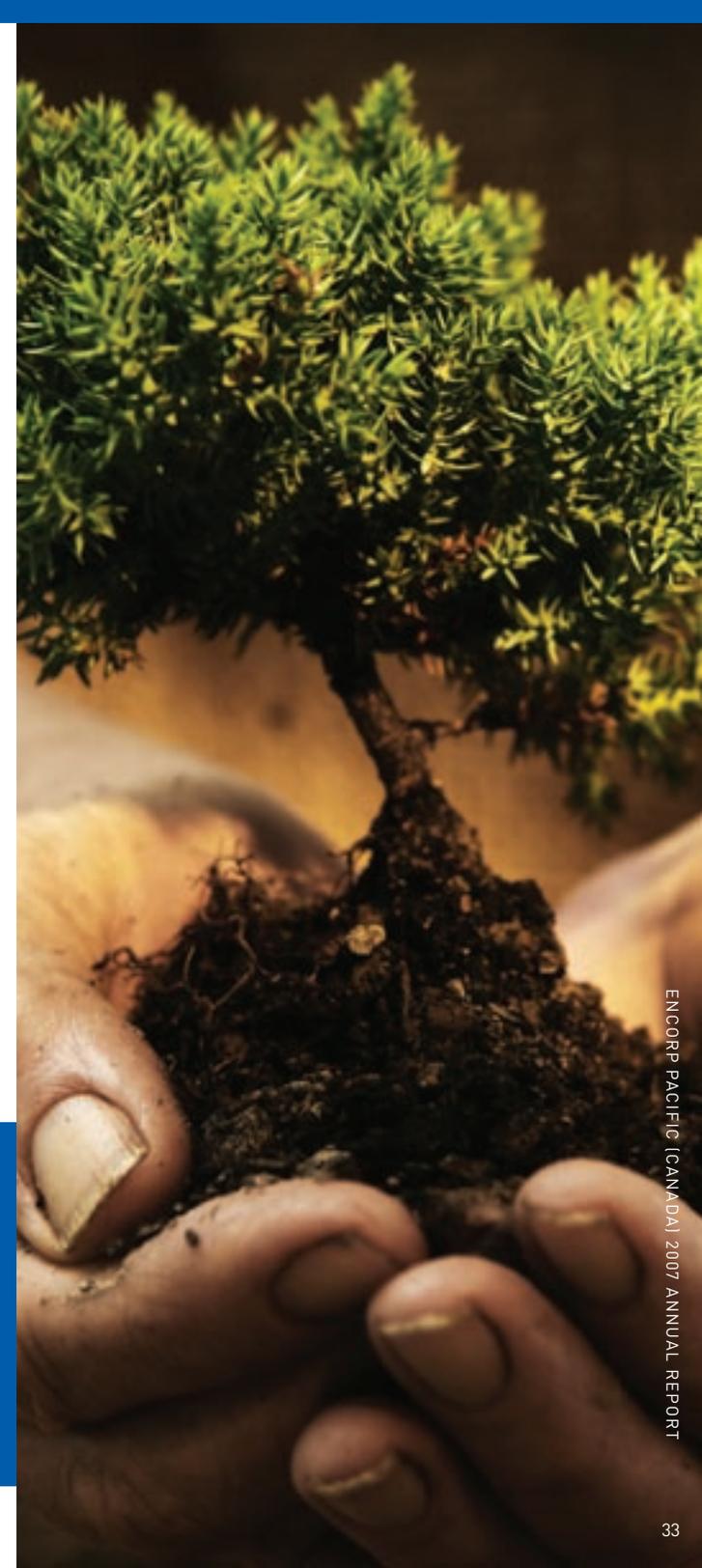
# Eco Audit Environmental Benefits Statement

The 2007 Encorp Annual Report is printed with vegetable inks on Astrolite PC 100 which contains 100% post-consumer waste certified. By choosing post-consumer & recycled fibres instead of virgin paper for this printed material, the following savings to our natural resources were realized:

5 .....	Trees Saved
4,281 Gals .....	Water Saved
881 Lbs .....	Net Green House Emissions
2,912 Lbs .....	Wood Saved
454 Lbs .....	Land Fill Reduced
5,796 Btu's.....	Energy Reduced



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