

# **Encorp Pacific (Canada)**

Financial Statements  
**December 31, 2009**

April 21, 2010

## **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, 2009 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, 2009 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

**Chartered Accountants**

# Encorp Pacific (Canada)

## Statement of Financial Position

As at December 31, 2009

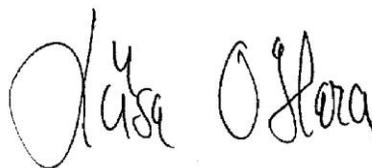
	2009 \$	2008 \$
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	8,045,307	9,483,151
Accounts receivable	4,808,032	4,618,570
Prepaid expenses and deposit	23,262	21,886
	<u>12,876,601</u>	<u>14,123,607</u>
<b>Capital assets</b> (note 4)	<u>977,786</u>	<u>687,985</u>
	<u>13,854,387</u>	<u>14,811,592</u>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	7,586,260	6,632,325
Deferred revenue	7,530,223	6,390,314
Current portion of obligation under capital lease (note 6)	77,031	22,749
	<u>15,193,514</u>	<u>13,045,388</u>
<b>Obligation under capital lease</b> (note 6)	<u>118,860</u>	<u>-</u>
	<u>15,312,374</u>	<u>13,045,388</u>
<b>Net assets</b>		
<b>Internally restricted reserve</b> (note 5)	4,277,304	5,722,018
<b>Unrestricted</b> (note 5)	<u>(5,735,291)</u>	<u>(3,955,814)</u>
	<u>(1,457,987)</u>	<u>1,766,204</u>
	<u>13,854,387</u>	<u>14,811,592</u>

**Commitments** (note 7)

**Approved by the Board of Directors**



Director



Director

See accompanying notes to financial statements.

# Encorp Pacific (Canada)

## Statement of Changes in Net Assets

For the year ended December 31, 2009

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			<u>2009</u>	<u>2008</u>
	<b>Internally restricted reserve</b>	<b>Unrestricted</b>	<b>Total</b>	<b>Total</b>
	\$	\$	\$	\$
<b>Balance - Beginning of year</b>	5,722,018	(3,955,814)	1,766,204	4,604,337
Deficiency of revenue over expenses	-	(3,224,191)	(3,224,191)	(2,838,133)
Transfer from internally restricted reserve (note 5)	(1,444,714)	1,444,714	-	-
<b>Balance - End of year</b>	<u>4,277,304</u>	<u>(5,735,291)</u>	<u>(1,457,987)</u>	<u>1,766,204</u>

See accompanying notes to financial statements.

# Encorp Pacific (Canada)

## Statement of Operations

For the year ended December 31, 2009

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	2009 \$	2008 \$
<b>Revenue</b>		
Deposits on containers	93,579,879	94,869,078
Deposit refunds	(76,680,933)	(75,325,602)
	<hr/> 16,898,946	<hr/> 19,543,476
Container recycling fees	45,986,753	32,486,866
Contract fees	8,983,465	6,232,418
Sale of recyclable materials	10,590,443	16,377,520
Other	139,291	1,951,280
	<hr/> 82,598,898	<hr/> 76,591,560
<b>Direct operations expenses</b>		
Handling fees	50,594,354	47,724,788
Depot operations	235,445	377,831
Transportation and processing fees	25,883,240	24,407,832
	<hr/> 76,713,039	<hr/> 72,510,451
<b>Other expenses (income)</b>		
General and administrative	3,798,585	4,174,314
Consumer awareness	4,398,786	3,398,192
Amortization	538,761	375,784
Foreign exchange loss (gain)	373,918	(1,029,048)
	<hr/> 9,110,050	<hr/> 6,919,242
<b>Deficiency of revenue over expenses</b>	<hr/> <b>(3,224,191)</b>	<hr/> <b>(2,838,133)</b>

See accompanying notes to financial statements.

# Encorp Pacific (Canada)

## Statement of Cash Flows

For the year ended December 31, 2009

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	2009 \$	2008 \$
<b>Cash flows from operating activities</b>		
Deficiency of revenue over expenses	(3,224,191)	(2,838,133)
Item not affecting cash - amortization	538,761	375,784
	<hr/>	<hr/>
	(2,685,430)	(2,462,349)
Changes in non-cash operating working capital		
Accounts receivable	(189,462)	3,082,854
Prepaid expenses and deposit	(1,377)	24,068
Accounts payable and accrued liabilities	953,935	819,297
Deferred revenue	1,139,909	(759,211)
	<hr/>	<hr/>
	(782,425)	704,659
<b>Cash flows from investing activities</b>		
Purchase of capital assets	(594,853)	(426,471)
<b>Cash flows from financing activities</b>		
Repayment of obligation under capital lease	(60,566)	(90,686)
	<hr/>	<hr/>
<b>(Decrease) increase in cash and cash equivalents</b>	(1,437,844)	187,502
<b>Cash and cash equivalents - Beginning of year</b>	9,483,151	9,295,649
	<hr/>	<hr/>
<b>Cash and cash equivalents - End of year</b>	8,045,307	9,483,151
	<hr/>	<hr/>
<b>Non-cash items</b>		
Capital assets acquired under capital lease	233,709	-

See accompanying notes to financial statements.

# Encorp Pacific (Canada)

Notes to Financial Statements

December 31, 2009

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## 1 Operations

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

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

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

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

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

## 2 Significant accounting policies

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

### Cash and cash equivalents

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

### Revenue

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

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

Contract fees are recorded when the services are provided.

# Encorp Pacific (Canada)

Notes to Financial Statements

December 31, 2009

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## Deferred revenue

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

## Direct operations expenses and other expenses

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

## Foreign currency translation

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

## Capital assets

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

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

## Use of estimates

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

# Encorp Pacific (Canada)

Notes to Financial Statements

December 31, 2009

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## Financial instruments

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

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

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

## 3 Change in accounting policies

### *Not-for-Profit Organizations*

Effective January 1, 2009, the Corporation adopted retrospectively the changes to the recommendations in CICA Handbook Section 4400, *Financial Statement Presentation by Not-for-Profit Organizations*, which includes the option to eliminate the requirement to separately disclose the amount of net assets invested in property and equipment. The Corporation has therefore eliminated from the financial statements details about the amount of net assets invested in capital assets and the calculation of this amount. As a result, the Corporation has reclassified \$781,895 (2008 - \$665,236) from net assets invested in capital assets to unrestricted net assets.

In connection with the above changes to CICA Handbook Section 4400, the Corporation has also retrospectively adopted the requirement to recognize and present revenues and expenses at their gross amounts when an organization is acting as a principal in transactions. As a result, sale of recyclable materials revenue previously presented net of related transportation fees totalling \$435,113 (2008 - \$543,008) has now been presented on a gross basis.

# Encorp Pacific (Canada)

Notes to Financial Statements

December 31, 2009

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## 4 Capital assets

			<u>2009</u>	<u>2008</u>
	Cost	Accumulated	Net	Net
	\$	amortization	\$	\$
		\$		
Office equipment	397,754	283,821	113,933	123,931
Computer hardware	1,555,224	1,014,683	540,541	427,589
Computer software	524,047	207,881	316,166	106,092
Leasehold improvements	122,266	115,120	7,146	30,373
	<u>2,599,291</u>	<u>1,621,505</u>	<u>977,786</u>	<u>687,985</u>

Included in capital assets are assets under capital lease with a cost of \$233,709 (2008 - \$366,234) and accumulated amortization of \$71,246 (2008 - \$342,256).

	<u>2009</u>	<u>2008</u>
	\$	\$
Capital assets	977,786	687,985
Obligation under capital lease	<u>(195,891)</u>	<u>(22,749)</u>
	<u>781,895</u>	<u>665,236</u>

## 5 Internally restricted reserve and unrestricted balance

The Board of Directors has established an internally restricted reserve in recognition of the principle that the costs of recycling each container type are to be borne independent of other container types. The objective of the reserve is to defer the implementation of the container recycling fee on container types for which the current unredeemed deposits exceed the net costs of recycling. The reserve level is reviewed annually. The reserve may also be used to develop and implement strategies to improve recovery rates of these specific containers. As a result of the annual review, an amount of \$1,444,714 (2008 - \$61,502) was transferred from the reserve during the current year.

With respect to the unrestricted balance that is currently in a deficit, it is management's intention to recover this deficit through the increase of container recycling fees on these container types in future years.

# Encorp Pacific (Canada)

Notes to Financial Statements

December 31, 2009

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## 6 Obligation under capital lease

Total minimum payments required under capital leases are as follows:

	\$
2010	77,031
2011	77,031
2012	<u>57,773</u>
	211,835
Imputed interest (rates vary from 5% to 6%)	<u>15,944</u>
Present value of minimum capital lease payments	195,891
Less: Current portion	<u>77,031</u>
Long-term portion	<u>118,860</u>

Interest of \$10,381 (2008 - \$3,533) relating to capital lease obligations has been included in depot operations and general and administrative expense.

## 7 Commitments

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

	\$
2010	223,880
2011	180,792

## 8 Fair value of financial instruments

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

# Encorp Pacific (Canada)

Notes to Financial Statements

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## 9 Related parties

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

	\$
Cash	2
Shareholder's equity	2

During the year, the Corporation paid \$132,197 (2008 - \$112,581) in Board expenses, which comprise fees for directors and reimbursement of expenses.

## 10 Capital disclosures

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

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

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

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

## 11 Currency, interest rate and credit risk management

### Foreign currency risk

The Corporation is exposed to foreign exchange risk through its cash, accounts receivable and accounts payable that arise on sales of recyclable materials denominated in US dollars. At December 31, 2009, the net US dollar exposure on cash, accounts receivable and accounts payable was US\$1,334,249 (2008 - US\$1,435,655).

### Interest rate risk

The Corporation is not exposed to significant interest rate risk.

# **Encorp Pacific (Canada)**

Notes to Financial Statements

**December 31, 2009**

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## **Credit risk**

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

## **12 Comparative figures**

Comparative figures have been reclassified where necessary to be consistent with the presentation adopted in the current year. See note 3.