Encorp Pacific (Canada)

Financial Statements
December 31, 2010

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers LLP
Chartered Accountants
PricewaterhouseCoopers Place
250 Howe Street, Suite 700
Vancouver, British Columbia
Canada V6C 3S7
Telephone +1 604 806 7000
Facsimile +1 604 806 7806

May 4, 2011

Independent Auditor's Report

To the Members
of Encorp Pacific (Canada)

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

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

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

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

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

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

PricewaterhouseCoopers LLP

Chartered Accountants

Encorp Pacific (Canada)

Statement of Financial Position

As at December 31, 2010

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

Commitments (note 7)

Approved by the Board of Directors

_______________ Director _______________ Director

See accompanying notes to financial statements.

Encorp Pacific (Canada)

Statement of Changes in Net Assets

For the year ended December 31, 2010

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

See accompanying notes to financial statements.

Encorp Pacific (Canada)

Statement of Operations

For the year ended December 31, 2010

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

See accompanying notes to financial statements.

Encorp Pacific (Canada)
Statement of Cash Flows
For the year ended December 31, 2010

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

See accompanying notes to financial statements.

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.

Deferred revenue

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

Direct operations expenses and other expenses

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

Foreign currency translation

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

Capital assets

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

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

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

Leases

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

Use of estimates

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

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

Financial instruments

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

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

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

3 Change in accounting policies

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

4 Capital assets

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

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

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

5 Internally restricted reserve and unrestricted balance

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

6 Obligation under capital lease

Total minimum payments required under capital leases are as follows:

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

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

7 Commitments

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

8 Fair value of financial instruments

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

9 Related parties

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

	$
Cash	2
Shareholder's equity	2

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

10 Capital disclosures

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

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

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

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

11 Currency, interest rate and credit risk management

Foreign currency risk

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

Interest rate risk

The Corporation is not exposed to significant interest rate risk.

Credit risk

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