



7

PLAN PERFORMANCE

The movement of containers and how the money flows through the Return-It network.

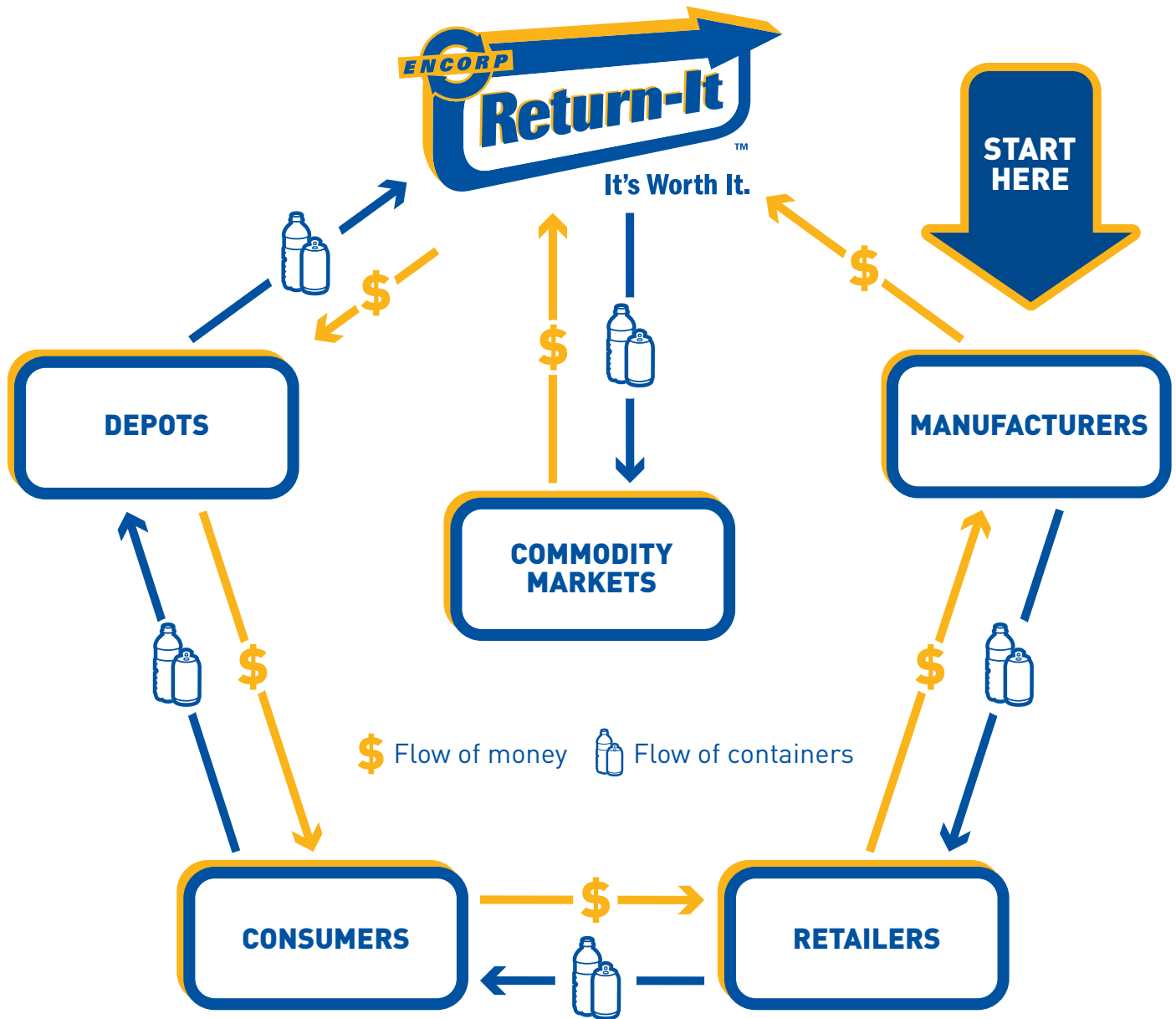
Revenue and Expenditure detail.

Purpose of operating reserves, how they are determined, and why they're important.

Container recycling fees by product type.

7.1 HOW MONEY FLOWS

The arrows show the direction of payments for deposits and container recycling fees (CRF) and the movement of beverage containers.



7.2 FOLLOW THE MONEY

REVENUES

Container Recycling Fees

When the revenue from unclaimed deposits and from sales of collected material are insufficient to cover the cost 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

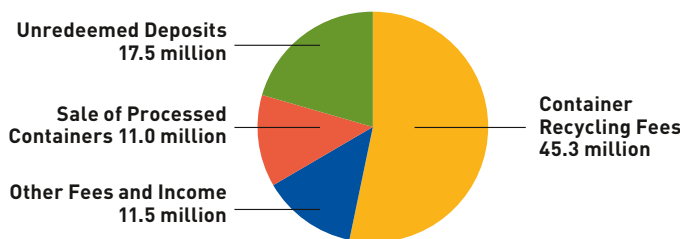
Revenues from service provider contracts.

Sale of Processed Containers

A portion of the cost of recovering aluminum and plastic containers, the two largest product categories, is covered by the value of the commodity collected. The prices for aluminum and plastic declined in 2016 and remained weak. However, the weakening dollar helped to offset the negative effect of the low commodity prices denominated in US dollars. The average price for aluminum was \$0.76 per pound (\$0.85 in 2015) and plastic was \$0.13 per pound (\$0.18 in 2015).

Unredeemed Deposits

Encorp is paid a deposit on every container sold. Deposits unclaimed are used to fund the system.



Where the money comes from

Container Recycling Fees	45.3 million	53.3%
Other Fees and Income*	11.5 million	13.3%
Sale of Processed Containers	11.0 million	12.9%
Unredeemed Deposits	17.5 million	20.4%

Total Revenues 85.3 million 100%

*Other Fees includes Electronics, Packaging & Printed Paper and interest income.

EXPENDITURES

Transportation and Processing

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

Administration

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

Consumer Education & Awareness

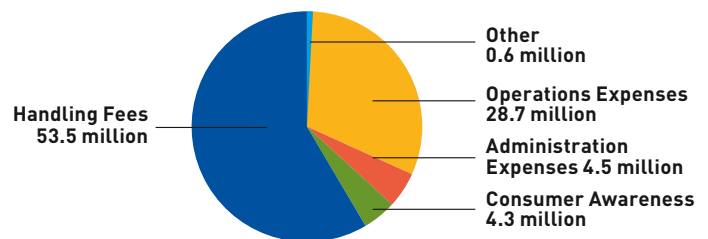
Programs that encourage consumers to return containers for recycling.

Container Handling Fees

Per-unit fees paid, in addition to deposit reimbursement, to depots for collecting containers.

Deposit Refunds

Paid to depots and grocery retailers to reimburse them for the deposits they have refunded to consumers.



Where the money is spent

Operations Expenses	28.7 million	31.3%
Administration Expenses	4.5 million	4.9%
Consumer Awareness	4.3 million	4.7%
Handling Fees	53.5 million	58.4%
Other Expenses**	0.6 million	0.7%

Total Expenditures 91.6 million 100%

**Other Expenses include amortization and foreign exchange gain/loss.

Note: Calculations may show slight variances due to rounding.

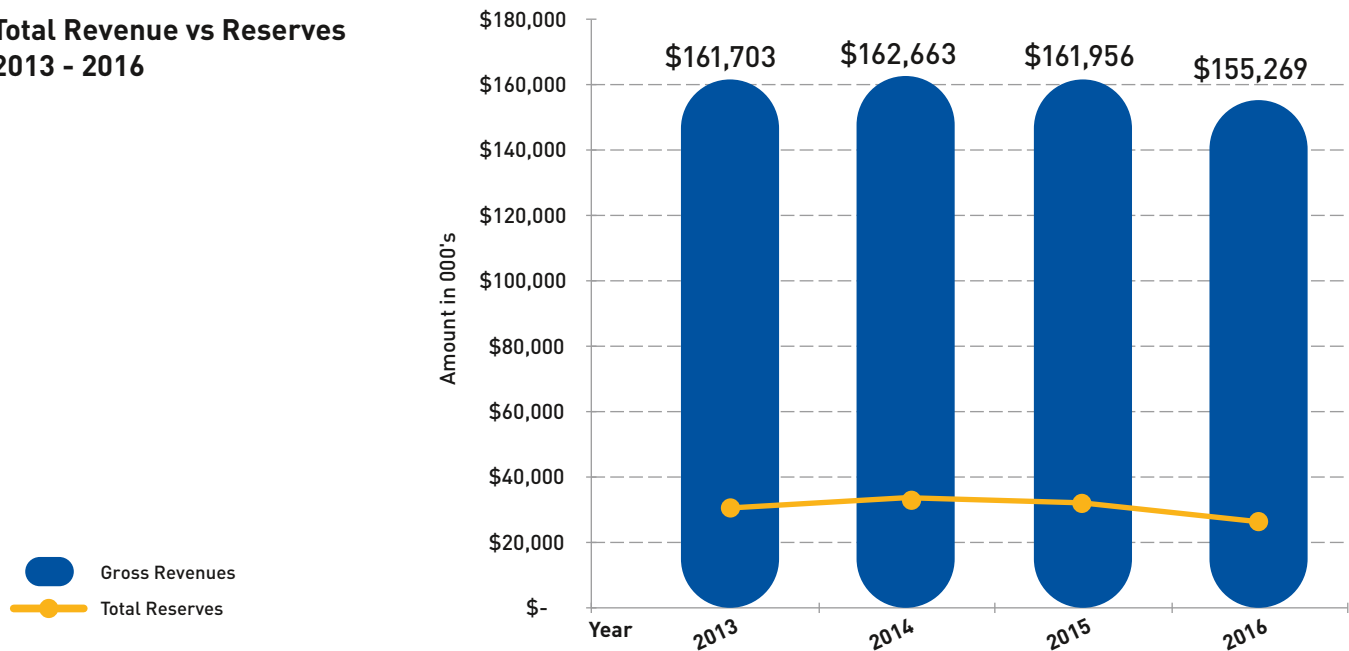
7.3 OPERATING RESERVES

Purpose of the Operating Reserves

Encorp’s reserves are built upon the corporation’s fundamental principles of no cross-subsidization of container types and equitable treatment of brand owners. The operating reserves are required to provide stability to the system over the long-term, to avoid cross-subsidization of container types, and to facilitate and stabilize the frequency of Container Recycling Fee (CRF) changes.

CRF’s may be raised, reduced or even eliminated in any given year to keep reserves within their targeted ranges. Reserves can also be reduced by increasing spending on activities designed to improve the recovery rate for a specific container type. The table shows the levels of reserves over the past years.

**Total Revenue vs Reserves
2013 - 2016**



Reserves	2013 BALANCE	2014 YEAR	2014 BALANCE	2015 YEAR	2015 BALANCE	2016 YEAR	2016 BALANCE
OPERATING RESERVE / (DEFICIT)	\$29,540,350	\$3,085,401	\$32,625,751	\$(1,267,354)	\$31,358,397	\$(6,402,659)	\$24,955,738
RESTRICTED RESERVE / (DEFICIT)	1,198,440	(18,058)	1,180,382	344	1,180,726	100,795	1,281,521
TOTAL RESERVE / (DEFICIT)	\$30,738,790	\$3,067,343	\$33,806,133	\$(1,267,010)	\$32,539,123	\$(6,301,864)	\$26,237,259

Management of the Operating Reserves

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

Encorp's operating reserves are maintained to meet the corporation's cash flow requirements, recognizing normal business volatility balanced over a period of three to five years. This year, the operation reserve was reduced by \$6.3 million.

These reserves have been used to fund system costs that may otherwise have been reflected in consumer prices.

	Gross Revenue Including Deposits (millions)	Total Expenses Including Deposit Refunds (millions)	Results (millions)	Operating Reserves/ (Deficit) Year end (millions)
2009	158.9	162.1	(3.2)	(1.4)
2010	168.6	159.5	9.1	7.7
2011	170.1	157.4	12.7	20.4
2012	164.0	156.9	7.1	27.4
2013	161.7	158.4	3.3	30.7
2014	162.7	159.6	3.1	33.8
2015	162.0	163.3	(1.3)	32.5
2016	155.4	161.7	(6.3)	26.2

7.4 FREQUENTLY ASKED QUESTIONS

Our Reserves

Encorp's reserve guideline is built upon two core principles: (a) we do not "cross-subsidize" container types or fee categories; and (b) we treat brand owners equally.

Our operating reserves provide stability to our depot system by providing adequate cash flow for day-to-day operations. They also help us avoid cross-subsidization of container types and help smooth out revenue in the event of container recycling fee changes.

Question: Why does Encorp need reserves?

Our weekly expenses including paying for deposit refunds, handling fee payments to depots, transportation and processing costs must be met without interruption. The many small businesses that rely on our cash payments could not be viable if there was any kind of disruption or delay in our regular and predictable pattern of payments. However, our revenues are not as reliable, as they depend on the volatility of the beverage and recycling markets. The reserves are the cushion we need to ride through the up and down cycles in these markets.

Question: How does Encorp create reserves?

Each year we forecast the expected sales of beverages in the province and our rate of collection of containers to estimate our revenues and expenses. To ensure that we can cover our costs, we determine the level of fees we will have to charge our brand owners. By setting the appropriate fees, we can create, increase or decrease a reserve for each type of container. The individual container reserves combined represent our total overall reserves.

Question: What size of reserve is required?

On average we pay out about \$3 million per week to customers, depots, transporters and processors. Experience shows that our reserve level needs to be based on the cash flow requirements for six weeks' during the peak season. The board of directors has set Encorp's appropriate reserve range between \$21 and \$31 million. The optimum reserve level has been established at \$26 million. Actual reserves will fluctuate above and below the average because of the volatility of key influences on our cash flow, including recovery rates, commodity prices, beverage sales and exchange rates.



7.5 CONTAINER RECYCLING FEES

CRF stands for Container Recycling Fee. This is the fee Encorp charges to cover the net cost of recycling a beverage container type after any unredeemed deposits and commodity revenues for that container type have been used.

CRFs have been in place for beverage containers in British Columbia for more than 17 years. The CRF varies for each beverage container category. As a not-for-profit product stewardship agency, Encorp Pacific only charges the net cost for recovering and recycling beverage containers. The CRF reflects current economic conditions such as commodity prices and beverage volumes.

Container Type	2015	2016
Aluminum	1.0 cent	1.0 cent
Plastic ≤ 1L	3.0 cents	3.0 cents
Plastic > 1L	4.0 cents	4.0 cents
Glass ≤ 1L	10.0 cents	9.0 cents
Glass > 1L	35.0 cents	40.0 cents
Bi-Metal ≤ 1L	4.0 cents	3.0 cents
Bi-Metal > 1L	4.0 cents	3.0 cents
Drink Boxes ≤ 500 ml	1.0 cent	1.0 cent
Drink Boxes 501 ml - 1L	6.0 cents	5.0 cents
Gable Top > 1L	6.0 cents	6.0 cents
Glass Wine & Spirits ≤ 1L	12.0 cents	11.0 cents
Glass Wine & Spirits > 1L	22.0 cents	16.0 cents
Non-Refillable Beer, Cider, Cooler Glass ≤ 1L	9.0 cents	7.0 cents
Non-Refillable Beer, Cider, Cooler Glass > 1L	15.0 cents	23.0 cents
Liquor Plastic ≤ 1L	4.0 cents	4.0 cents
Liquor Plastic > 1L	10.0 cents	8.0 cents
Liquor Bag-In-Box	—	1.0 cent