



2018 ANNUAL REPORT

# PLAN PERFORMANCE



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

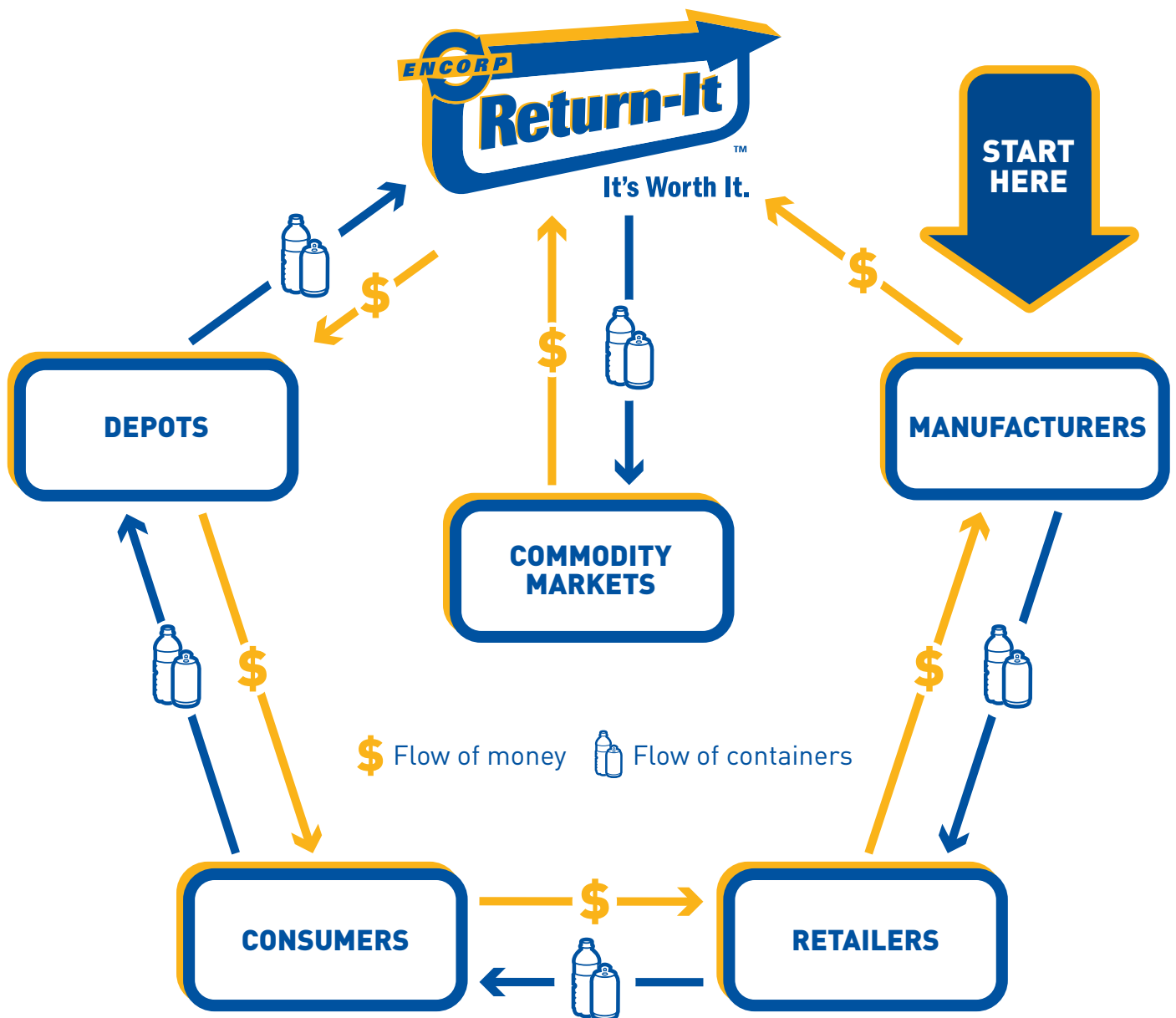
Revenue and Expenditure detail.

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

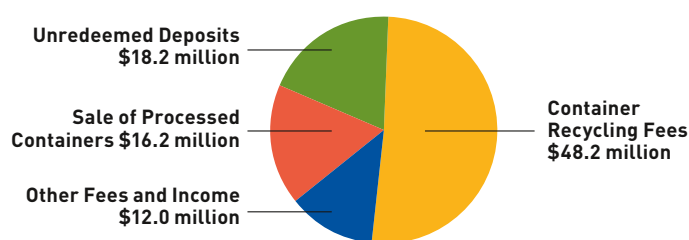
Revenues from service provider contracts.

#### 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 were strong and combined with the favourable exchange rate from USD to CAD in 2018, commodity revenue was higher than forecast which partially contributed to the rise in our operating reserve levels. The average price for aluminum was \$1.05 per pound (\$0.91 in 2017) and plastic was \$0.18 per pound (\$0.17 in 2017).

#### 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     | <b>\$48.2 million</b> | <b>51.0%</b> |
| Other Fees and Income*       | <b>12.0 million</b>   | <b>12.7%</b> |
| Sale of Processed Containers | <b>16.2 million</b>   | <b>17.1%</b> |
| Unredeemed Deposits          | <b>18.2 million</b>   | <b>19.2%</b> |
| <b>Total Revenues</b>        | <b>94.6 million</b>   | <b>100%</b>  |

\*Other Fees includes electronics, packaging & printed paper, and interest income.

Note: Calculations may show slight variances due to rounding.

### 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

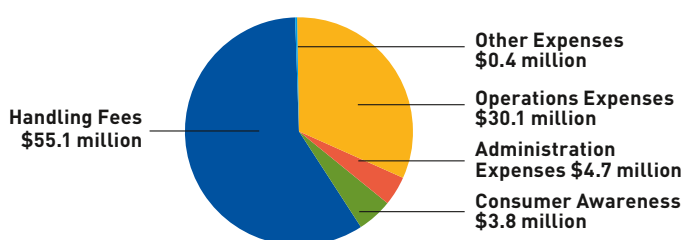
Programs that encourage consumers to return containers for recycling.

#### 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       | <b>\$30.1 million</b> | <b>32.0%</b> |
| Administration Expenses   | <b>4.7 million</b>    | <b>5.0%</b>  |
| Consumer Awareness        | <b>3.8 million</b>    | <b>4.0%</b>  |
| Handling Fees             | <b>55.1 million</b>   | <b>58.6%</b> |
| Other Expenses**          | <b>0.4 million</b>    | <b>0.4%</b>  |
| <b>Total Expenditures</b> | <b>94.1 million</b>   | <b>100%</b>  |

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

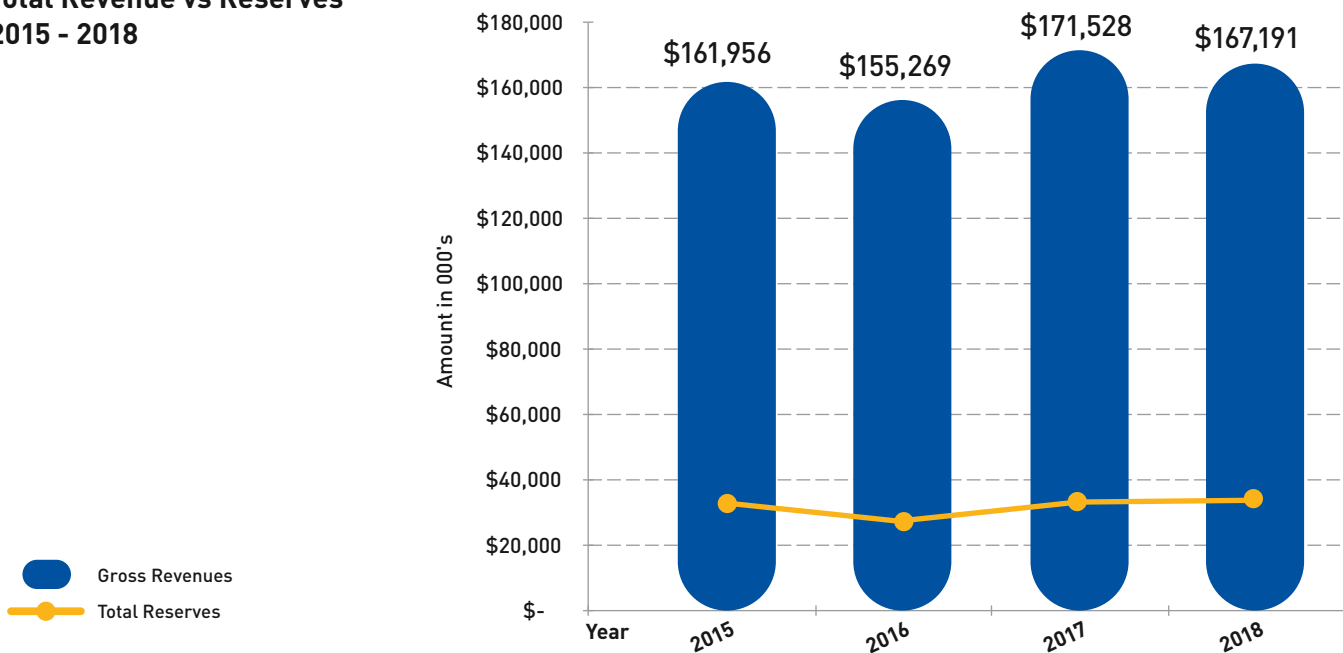
## 7.3 OPERATING RESERVES

### 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 recent years.

### Total Revenue vs Reserves 2015 - 2018



| Reserves                         | 2015<br>BALANCE     | 2016<br>YEAR         | 2016<br>BALANCE     | 2017<br>YEAR       | 2017<br>BALANCE     | 2018<br>YEAR     | 2018<br>BALANCE     |
|----------------------------------|---------------------|----------------------|---------------------|--------------------|---------------------|------------------|---------------------|
| OPERATING RESERVE / (DEFICIT)    | \$31,358,397        | \$(6,402,659)        | \$24,955,738        | \$7,438,787        | \$32,394,525        | \$743,243        | \$33,137,768        |
| RESTRICTED RESERVE / (DEFICIT)   | 1,180,726           | 100,795              | 1,281,521           | (215,477)          | 1,066,044           | (236,429)        | 829,615             |
| <b>TOTAL RESERVE / (DEFICIT)</b> | <b>\$32,539,123</b> | <b>\$(6,301,864)</b> | <b>\$26,237,259</b> | <b>\$7,223,310</b> | <b>\$33,460,569</b> | <b>\$506,814</b> | <b>\$33,967,383</b> |

## 7.3 OPERATING RESERVES

### 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.

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

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.

On average, we pay 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. This year, the operation reserve grew by \$0.5 million, well within the required level.

|             | Gross Revenue<br>Including Deposits<br>(millions) | Total Expenses<br>Including Deposit Refunds<br>(millions) | Results /<br>(Deficit)<br>(millions) | Operating<br>Reserves<br>Year end<br>(millions) |
|-------------|---|---|--------------------------------------|---|
| 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  |
| 2017        | 171.5   | 164.3   | 7.2                                  | 33.4  |
| <b>2018</b> | <b>167.2</b>                                      | <b>166.7</b>  | <b>0.5</b>                           | <b>33.9</b>                                     |

## 7.4 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 18 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                                | 2017       | 2018       |
|---|------------|------------|
| Aluminum                                      | 2.0 cents  | 1.0 cent   |
| Plastic ≤ 1L                                  | 4.0 cents  | 3.0 cents  |
| Plastic > 1L                                  | 4.0 cents  | 4.0 cents  |
| Polystyrene                                   | 4.0 cents  | 3.0 cents  |
| Glass ≤ 1L                                    | 9.0 cents  | 8.0 cents  |
| Glass > 1L                                    | 16.0 cents | 16.0 cents |
| Bi-Metal ≤ 1L                                 | 4.0 cents  | 5.0 cents  |
| Bi-Metal > 1L                                 | -          | -          |
| Bag-In-Box                                    | 1.0 cent   | 5.0 cents  |
| Drink Boxes ≤ 500 ml                          | 1.0 cent   | 1.0 cent   |
| Drink Boxes 501 ml - 1L                       | 5.0 cents  | 5.0 cents  |
| Drink Boxes > 1L                              | -          | -          |
| Gable Top ≤ 1L                                | -          | -          |
| Gable Top > 1L                                | 6.0 cents  | 6.0 cents  |
| Drink Pouches                                 | -          | -          |
| Glass Wine & Spirits ≤ 1L                     | 12.0 cents | 12.0 cents |
| Glass Wine & Spirits > 1L                     | 16.0 cents | 16.0 cents |
| Non-Refillable Beer, Cider, Cooler Glass ≤ 1L | 9.0 cents  | 9.0 cents  |
| Non-Refillable Beer, Cider, Cooler Glass > 1L | 16.0 cents | 16.0 cents |
| Liquor Plastic ≤ 1L                           | 3.0 cents  | 4.0 cents  |
| Liquor Plastic > 1L                           | 8.0 cents  | 9.0 cents  |
| Liquor Bag-In-Box                             | 1.0 cent   | 5.0 cents  |