
NEW BRUNSWICK Tire Stewardship Board

2005 Annual Report





NEW BRUNSWICK Tire Stewardship Board

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March 31, 2006

Honourable Trevor A. Holder
Minister of the Environment and Local Government
P.O. Box 6000
Fredericton, NB
E3B 5H1

Dear Minister:

On behalf of the members of the New Brunswick Tire Stewardship Board,
I am pleased to submit the Annual Report for the fiscal year January 1, 2005 to
December 31, 2005.

Sincerely,



George Haines

Assistant Deputy Minister, Department of the Environment and Local Government
Chairperson, New Brunswick Tire Stewardship Board

Attach.

OPERATIONS Summary



The New Brunswick Tire Stewardship Program (TSP) collected over 6.5 million kilograms of recyclable industrial rubber during 2005, from more than 800 separate retail tire outlets across the province.

Roughly 75% of this total was contained in scrap passenger car tires, while larger truck tires accounted for the remainder.

Passenger tires are defined by regulation according to their rim size diameter, which ranges from 20.3 to 43.2 cm. Truck tires, in comparison, have rim size diameters from 43.2 cm to 62.2 cm.

Since the program began almost a decade ago, a 'PTE' measurement system has been used to generate statistical data on an annual basis.

PTE stands for Passenger Tire Equivalents. Based on long-standing industry estimates, it considers the average truck tire roughly equivalent to five passenger car tires, in terms of the amount of recyclable rubber it can generate.

Expressed on this scale, more than 880,000 scrap PTEs were diverted from landfill disposal across New Brunswick in 2005.

The TSP concept defines scrap tires as a valuable resource, rather than a waste management challenge.

Local pick-up, collection and transport operations take place in communities across the province every business day of the year.

The result is a constant flow of transport trucks delivering this resource to the Minto Industrial Park, which is home to Tire Recycling Atlantic Canada Corporation (TRACC).

TRACC functions as primary contractor to the New Brunswick Tire Stewardship Board (NBTSB) for collection, processing and ultimate recycling of the Province's scrap tires.

During 2005, total output of new value-added rubber-based products from TRACC's Minto plant exceeded 6.1 million kilograms, or 830,000 PTEs.

Roughly 90% of this output was focused on the production of livestock mattresses for dairy industry operations across North America, Europe and beyond.

TRACC also manufactures rubber gaskets for use in heavy industry, noise and shock suppression materials, hard rubber bases for highway and street maintenance posts, truck and trailer mud flaps, as well as other special purpose industrial products.

During 2005, TSP output categories continued to grow, including hybrid roofing tiles for use in residential, commercial, and institutional building construction.

Another new production stream involves bulk rubber materials such as synthetic 'bark mulch' for landscaping applications. A related product was also successfully tested as school playground cover material, replacing the 'pea-gravel' traditionally used around outdoor play equipment.



The program's focus on developing a permanent recycling system for oversized 'Off-the-Road' tires, or OTRs, continued during the year.

Roughly 5000 scrap OTRs are generated in New Brunswick annually from the agriculture, forestry, construction and mining sectors.

The complex technical challenge involved in shredding such huge, specially-fabricated units is now beginning to recede, with the emergence of new more cost-effective technologies.

Against this background, a formal tender call to potential contractors for operation of a province-wide OTR program, as part of the TSP, is expected in the near future.

PROGRAM Impacts

The central goal of New Brunswick's TSP has remained constant since it was introduced more than nine years ago. Diverting scrap tires from the solid waste disposal stream, and ensuring their productive recycling instead, is clearly the essence of the program.

By any measure, the TSP has proved particularly cost-effective in meeting this challenge.

During its first full year of operation in 1997, roughly 450,000 scrap tire PTEs were collected across the Province for subsequent recycling. As noted above, the total PTE collection figure for 2005 exceeded 880,000.

While the number of scrap tires being captured through the TSP has virtually doubled over nine years, costs for operational inputs, such as the energy used in transportation and processing, have also risen significantly during the same period.

On the expenditure side of the program, by comparison, there has been no corresponding increase.

The partial operating subsidies payable through the TSP for every scrap tire collected and successfully recycled in New Brunswick are exactly the same today, as they were when the program began.



ENVIRONMENTAL QUALITY

Ending the environmental problems associated with scrap tire waste was a key factor during program planning for the TSP a decade ago.

Apart from the widespread blight of illegal tire dumping, the cost of attempting to dispose of scrap tires in regional landfills had become unsustainable.

By diverting more than 7.5 million PTEs from landfill disposal throughout the Province since then, the TSP has saved regional solid waste commissions and local tax-payers millions of dollars in operating costs.

Over the same period, illegal tire dumping has been significantly reduced. Cleaning up old tire stockpiles in various locations was another priority in the early days of the program, and every scrap unit collected at such sites became part of the NB rubber recycling effort.

ECONOMIC PROGRESS

The continuing positive impacts of the TSP on the provincial economy reflect its initial design, which placed a strong priority on 'value-added' manufacturing.

North America's tire recycling industry as a whole is highly competitive and frequently subject to price fluctuations for basic commodities, such as shredded tire pieces or 'crumb rubber' material from bulk processing plants.

New Brunswick's approach to tire stewardship is focused instead on generating finished rubber-based goods, together with a strong emphasis on national and international markets.

Producing unique recycled products for industrial and commercial clients has proved to be a distinct advantage, instead of generating raw 'crumb rubber' for shipment to recycling plants in other jurisdictions.

Highlighting this broader concept of stewardship has created solid economic progress and a range of positive spin-offs. The TSP has clearly helped to build a sustainable 'home-grown' industry, providing employment for New Brunswickers province-wide.



Inside a highly durable fabric covering, every completed 'Pro-Mat' unit contains 60 kilograms of high-quality industrial rubber generated from NB's scrap tire resource.

The TSP emphasis on 'value-added' recycling made it possible in this case to capitalize on the increasing use of sophisticated techniques in the dairy sector. More hygienic 'bedding material' for livestock, which also prevents leg injuries, represents a clear advantage for producers.

In 2005, for example, more than 110,000 finished livestock mattresses were produced and shipped to waiting customers from the TRACC site in Minto.

These units are specifically designed for installation in 'high-tech' dairy production facilities, from Atlantic Canada to the U.S. Midwest, and as far away as Ireland and Scandinavia.

By producing the right product, at the right time, a 'niche market' is now being served on a global scale direct from New Brunswick, with cost-effective recycled rubber.



NEW PRODUCT Development



SYNTHETIC 'BARK' MULCH

Molded or fabricated rubber products have long been a focal point for TRACC's manufacturing operation.

But recent advances in technology have opened the way for generating high-volume bulk products as well. One of the most promising applications of this kind involves synthetic rubber 'bark mulch.'

An advanced formulation of this material was introduced by TRACC during 2005, and is prompting widespread interest from the landscaping industry.

The finished product features highly-textured rubber chips in varying sizes, shapes and colours, and is virtually indistinguishable from traditional bark mulch used in commercial and residential gardens.

Unlike 'natural' bark mulch, however, the recycled rubber equivalent is essentially inert, as far as the underlying soil is concerned.

Because it won't decompose over time, potential impacts on soil acidity are no longer a concern. The need for repeat applications is substantially lessened, and maintenance costs are greatly reduced as well.

Development and testing of new product categories is a fundamental aspect of TSP operations.

They also represent the first TSP output stream to combine recycled plastic with rubber, as part of the basic process feedstock.

During 2005, field test installations of TRACC's new hybrid roofing tiles expanded to include different residential structures and diverse roof line configurations.

The 'slate-style' appearance of these tiles, together with their intrinsic durability, is seen as a major marketing advantage over natural slate and other 'high-end' roofing products.



RUBBER-BASED PLAYGROUND COVER MATERIAL

Another new TSP output stream, closely-related to the mulch product, involves linking similar sized rubber chips in a carpet-like ground cover material for all-weather use.

A year long pilot project to test this material under active playground conditions was completed during 2005 and produced very encouraging results.

The finished product was installed around modern playground equipment in daily use by more than 400 New Brunswick elementary school students. It proved to be noticeably softer underfoot than the traditional 'pea-gravel' used in such areas.

The new surface also performed better in wet or cold weather conditions, and proved more easily accessible to wheelchairs.

In comparison to stone-based surfaces, this type of cover material is also known to reduce the risk of minor playground cuts, scrapes and bruises in the student population concerned.

Future market potential for such special applications is seen as important, as are other 'bulk' product categories which will be a continuing research emphasis in the years ahead.



PROGRAM Development

Assessing potential new service components, industry trends and advances in process technology is a constant priority in TSP planning.

Recycling options for New Brunswick's 'Off-The-Road' scrap tires, or OTRs, remain a key focus in this regard, as they remain the only vehicle tires not covered under the existing program.

OTR RECYCLING

Roughly 5,000 scrap OTRs are generated each year from the agriculture, forestry, construction and mining sectors in New Brunswick.

Given the oversize dimensions and weight of scrap tires in this category, the volume of recyclable rubber they represent is significant.

On the other hand, their size and reinforced internal design has traditionally made OTRs very difficult to recycle.

Tires made for the construction sector may weigh as much as 450 kilograms and even they can be dwarfed by the gigantic units used on heavy open-pit mining equipment.

Special purpose vehicles, which such tires are designed for, demand exceptional performance, over long periods, under very tough operating conditions. But their extra resilience



and massive proportions also mean that normal truck and car tire shredding systems can't handle scrap OTRs.

A major research effort has been underway for some time aimed at finding a solution to this problem, which makes practical sense in the New Brunswick context.

Bringing OTRs under the full provisions of the TSP, and diverting them from the solid waste stream, is clearly the goal. This would remove a significant pressure point on regional landfills province-wide, as well as increasing the supply of quality industrial rubber for productive re-use.

In planning terms, 2005 did mark an important turning point in this connection, as more cost-effective

technologies began to emerge across North-America for potential use in OTR processing.

Based on these technical advances, it now appears that generation levels as low as 5000 scrap OTR units per year could be accommodated within a system such as the TSP. A substantial effort still remains to bring this concept into fruition.

By the end of year, however, preparatory work had begun on a formal tender call for public distribution to potential contractors interested in taking on the OTR challenge in New Brunswick. It's expected that this process will go forward in early 2006 and signal the start of a long-awaited program expansion.

TSP Administration

Advanced information technologies and data monitoring capacity are essential requirements for the TSP administrative system.

On average, 23,000 kilograms of industrial rubber join New Brunswick's scrap tire collection stream every business day of the year.

Tracking new tire sales, environmental fee transaction records, scrap tire shipments province-wide, and finished product output are among the many data streams requiring constant access.

The program's administrative operations are carried out by a staff of four, three based in the TSP's Fredericton Head Office, and one monitoring inspector located at the TRACC site in Minto.

Ensuring that TSP data management systems generate precise current information, whenever it's required, is essential in this setting. The fact that so much of the raw data entered in the system is initially generated at exterior locations, such as retail tire outlets, also has a key impact on its operational design.

Two initiatives began during 2005 aimed at capturing detailed monitoring information as early

as possible in the process which transforms NB scrap tires into new recycled products.

The first of these involves the introduction of digital technology to local collection operations province-wide.



DIGITAL SCANNER DATA ENTRY

With more than 800 tire retailers across NB, collecting scrap tires at the local level for ultimate transport to Minto demands careful scheduling.

The typical service station in a small community may sell just a few tires a month and be able to store 15 to 20 scrap units on site at any one time. On the other hand, a large urban retailer may have storage space for much larger scrap volumes, before they require pick-up service.

Generating detailed information on the number of scrap tires being transported to Minto on any given day has traditionally relied on individual measuring techniques, visual checking and estimates.

A new addition to the TSP system is now under development, however, in which hand-held digital scanners will be used to record and enter such data on a routine basis.

When fully operational, such remote units will ultimately allow all NB trucking firms involved in scrap tire collection to transmit extensive data to the TSP Head Office on each load they carry.

In the longer term, such technology can also be used to identify the precise origin of every scrap tire retrieved from retailers across the province. It's clear that all aspects of TSP program monitoring will benefit from this move to an entirely digital process for data entry and analysis.

PTE MEASUREMENT SYSTEM

A detailed review of the traditional PTE measurement scale used for calculating TSP scrap tire volumes began during 2005, and could ultimately lead to a change in the way such calculations are made.



In terms of recyclable rubber content, the difference between one load of scrap tires and another can be considerable, and goes well beyond the basic rim size of each unit.

Even two tires which look much the same may not produce equivalent amounts of useful rubber. Such variations depend on the type of tire, how many reinforcing 'belts' each one contains, as well as their width, amount of tread left, how much 'non-rubber' material was used during fabrication, etc.

PTE weigh scales have been widely used in the tire recycling industry for years. The term stands for "passenger tire equivalent" and assumes that the average car tire will generate roughly 9 kg. of recyclable rubber after processing.



By comparison, truck tires are typically counted as five PTEs, because they are expected to generate as much as 45 kg. of rubber for recycling.

These averages are based on traditional industry estimates, rather than exact measurements, however, and may not fully reflect more recent trends in the automotive sector.

For example, the average weight of so-called 'passenger car tires' in North America has been trending upward in recent years, with the growth in popularity of light trucks, vans, SUVs, etc.

One option for the future may be to replace PTEs as a statistical category, in favour of separate weigh scale registers at various points in the collection and recycling process.

When fully implemented, such a system could generate more precise data on the amount of recyclable rubber being handled through the TSP at any given time. Advent of the digital technologies noted earlier could also ease the transition to weight-based data analysis for more cost-effective program monitoring.

NEW BRUNSWICK Tire Stewardship Board

George Haines, (Chairperson)
Assistant Deputy Minister
Department of the Environment and Local Government

Greg Shanks
Director, Stewardship Branch
Department of the Environment and Local Government

Frank LeBlanc
Beverage Container & Recycling Program, Stewardship Branch
Department of the Environment and Local Government

Liane Macfarlane
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AUDITORS' REPORT

To the Board of Directors

We have audited the statement of financial position of the New Brunswick Tire Stewardship Board as at December 31, 2005 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 Board'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.

The Board derives revenue from the collection of tire levies pursuant to the provisions of the Clean Environment Act, the completeness of which is not susceptible to satisfactory audit verification. Accordingly, our verification of these fee and levy revenues was limited to the amounts recorded in the records of the Board and we were not able to determine whether any adjustments might be necessary to revenues, excess of revenue over expenses, assets, liabilities and surplus.

In our opinion, except for the effect of adjustments, if any, which we might have determined to be necessary had we been able to satisfy ourselves concerning the completeness of the fee and levy revenue referred to in the preceding paragraph, these financial statements present fairly, in all material respects, the financial position of the Board as at December 31, 2005 and the results of its operations and changes in its net assets and cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Chartered Accountants

Fredericton, Canada
February 7, 2006

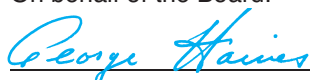
STATEMENT OF FINANCIAL POSITION

December 31, 2005, with comparative figures for 2004

| | 2005 | 2004 |
|---|---------------------|---------------------|
| Assets | | |
| Cash | \$ 713,031 | \$ 131,709 |
| Accounts receivable | 503,729 | 484,929 |
| Prepaid expenses | 3,770 | 2,989 |
| Current portion of advances to Tire Recycling Atlantic Canada Corporation (note 2) | 58,076 | 55,942 |
| | <u>1,278,606</u> | <u>675,569</u> |
| Investments | 1,849,946 | 1,791,100 |
| Advances to Tire Recycling Atlantic Canada Corporation (note 2) | 172,154 | 230,230 |
| Capital assets (note 3) | 37,874 | 18,251 |
| | <u>\$ 3,338,580</u> | <u>\$ 2,715,150</u> |
| Liabilities and Net Assets | | |
| Liabilities: | | |
| Accounts payable and accrued liabilities | \$ 262,017 | \$ 21,059 |
| Accrued processing fees | 1,262,115 | 1,080,622 |
| | <u>1,524,132</u> | <u>1,101,681</u> |
| Net assets: | | |
| Invested in capital assets | 37,874 | 18,251 |
| Unrestricted | 1,776,574 | 1,595,218 |
| | <u>1,814,448</u> | <u>1,613,469</u> |
| | <u>\$ 3,338,580</u> | <u>\$ 2,715,150</u> |

See accompanying notes to financial statements.

On behalf of the Board:



Director

STATEMENT OF OPERATIONS

Year ended December 31, 2005, with comparative figures for 2004

| | 2005 | 2004 |
|---------------------------------|-------------------|---------------------|
| Fees and levies | \$ 2,718,164 | \$ 2,732,926 |
| Expenses: | | |
| Scrap tire processing costs | 2,295,411 | 3,010,943 |
| Salaries and employee benefits | 141,642 | 163,040 |
| Travel | 13,256 | 28,677 |
| Board | 1,343 | 3,157 |
| Professional services | 23,169 | 44,853 |
| Consulting fees | - | 105,051 |
| Off the Road recycling project | - | 71,764 |
| Communication and translation | 48,908 | 33,553 |
| Office | 13,494 | 14,530 |
| Telephone | 6,414 | 5,740 |
| Rent | 10,800 | 11,205 |
| Insurance | 5,394 | 5,622 |
| Training and subscriptions | 1,270 | 1,387 |
| Interest and bank charges | 683 | 735 |
| Amortization | 13,114 | 6,553 |
| Donations | - | 14,400 |
| Recyclable Development Program | - | 48,500 |
| Security services | 22,119 | 3,304 |
| | <u>2,597,017</u> | <u>3,573,014</u> |
| | 121,147 | (840,088) |
| Other income: | | |
| Investment income | 79,832 | 92,703 |
| Harmonized sales tax | - | 1,812,518 |
| | <u>79,832</u> | <u>1,905,221</u> |
| Excess of revenue over expenses | <u>\$ 200,979</u> | <u>\$ 1,065,133</u> |

See accompanying notes to financial statements.

STATEMENT OF CHANGES IN NET ASSETS

Year ended December 31, 2005, with comparative figures for 2004

| | Invested in capital assets | Unrestricted | 2005 Total | 2004 Total |
|---|-------------------------------|--------------|---------------|---------------|
| Balance, beginning of year | \$ 18,251 | \$ 1,595,218 | \$ 1,613,469 | \$ 548,336 |
| Excess (deficiency) of revenue over expenses | (13,114) | 214,093 | 200,979 | 1,065,133 |
| Net change in investment in capital assets | 32,737 | (32,737) | - | - |
| Balance, end of year | \$ 37,874 | \$ 1,776,574 | \$ 1,814,448 | \$ 1,613,469 |

See accompanying notes to financial statements.

STATEMENT OF CASH FLOWS

Year ended December 31, 2005, with comparative figures for 2004

| | 2005 | 2004 |
|--|------------|--------------|
| Cash provided by (used in): | | |
| Operating activities: | | |
| Excess of revenue over expenses | \$ 200,979 | \$ 1,065,133 |
| Amortization, not involving cash | 13,114 | 6,553 |
| Changes in non-cash operating working capital: | | |
| Increase in accounts receivable | (18,800) | (76,582) |
| Increase in prepaid expenses | (781) | (332) |
| Increase (decrease) in accounts payable and accrued liabilities | 240,958 | (1,814,987) |
| Increase in accrued processing fees | 181,493 | 780,622 |
| | 616,963 | (39,593) |
| Financing and investing activities: | | |
| Capital assets acquired | (32,737) | (14,955) |
| Increase in investments | (73,901) | (276,787) |
| Advance to Tire Recycling Atlantic Canada Corporation | - | (300,000) |
| Repayments from Tire Recycling Atlantic Canada Corporation | 55,942 | 13,828 |
| | (50,696) | (577,914) |
| Increase (decrease) in cash position | 566,267 | (617,507) |
| Cash position, beginning of year | 131,709 | 749,216 |
| Cash position, end of year | \$ 697,976 | \$ 131,709 |

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

Year ended December 31, 2005

The New Brunswick Tire Stewardship Board (the "Board") is an agent of the crown incorporated under the Clean Environment Act. The principal business activity is overseeing the collection and recycling of used tires on behalf of the Minister of Environment for the Province of New Brunswick.

1. Significant accounting policies:

(a) General:

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles.

(b) Investments:

Investments are carried at cost. If the market value of the investments becomes lower than cost and this decline is considered to be other than temporary, the investments are written down to market value.

(c) Fees and levies:

Fees and levies are recognized by the Board when cash is received or receivable from the tire retailers. The Board uses a closing date of January 31st of the following year to recognize fee transfers from tire retailers related to the current year as a receivable.

(d) Capital assets:

Capital assets are recorded at cost. Amortization is recorded using the following method and annual rates:

| Asset | Basis | Rate |
|------------------------|---------------|---------|
| Office equipment | Straight-line | 5 years |
| Furniture and fixtures | Straight-line | 5 years |
| Computer equipment | Straight-line | 3 years |

(e) Scrap tire processing costs:

The Board remits a portion of all levies to Tire Recycling Atlantic Canada Corporation (TRACC). Half of the amount payable is remitted at time of collection and half is payable when TRACC has sold products containing the recycled material. The total amount due to TRACC is accounted for at time of pickup.

NOTES TO FINANCIAL STATEMENTS

Year ended December 31, 2005

1. Significant accounting policies (continued):

(f) Use of estimates:

The preparation of the financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

2. Advance to Tire Recycling Atlantic Canada Corporation:

The amount advanced to TRACC is supported by a demand promissory note, secured by a general security agreement, bearing interest at 3.75%, repayable in monthly instalments of \$5,476 including principal and interest and due September 2009.

3. Capital assets:

| | Cost | Accumulated amortization | 2005 Net book value | 2004 Net book value |
|------------------------|------------|-----------------------------|---------------------------|---------------------------|
| Office equipment | \$ 16,774 | \$ 15,563 | \$ 1,211 | \$ 1,719 |
| Furniture and fixtures | 11,551 | 8,406 | 3,145 | 3,793 |
| Computer equipment | 75,611 | 42,093 | 33,518 | 12,739 |
| | \$ 103,936 | \$ 66,062 | \$ 37,874 | \$ 18,251 |

4. Fair value of financial assets and financial liabilities:

The fair value of the Board's cash, accounts receivable and accounts payable and accrued liabilities approximate their carrying amounts.

The fair value of investments at December 31, 2005 was \$1,827,584 (2004 - \$1,781,497) based on published listings of market values.

The fair value of the accrued processing fees is not possible to estimate given the uncertainty of timing related to processing and related payment.