Thinking
beyond
the box

Stewardship Ontario

Stewardship Ontario | **2009 Annual Report**


When it comes to waste, there is an afterlife.

THINKING BEYOND THE BOX means we lead the way with efficiency and innovation, with experience and insight. Our mission is to drive sustainable, attainable product stewardship solutions for our partners that have a real impact on their business, the environment and the lives of Canadians.

TABLE OF CONTENTS

A Message from the Chair

"At Stewardship Ontario, our role is not only to divert waste from landfill but also to expand the range of materials that can be successfully recycled so that their full "worth" can be recovered and put to productive reuse."

When it comes to building sustainable communities, at Stewardship Ontario our commitment is as strong as ever. Even as the economic downturn last year presented new challenges to our stewards, consumers and municipal partners, we continued to stay focused on the hard work of finding long-term solutions to dealing with waste materials.

The solution to making our communities more sustainable rests squarely on the choices we as consumers make every day. We have a choice when it comes to the products we buy. In addition, more and more Ontarians are looking to businesses to offer products that are more sustainable while still offering the same or even better value.

We all want sustainability and we all have a role to play. At Stewardship Ontario, our role is not only to divert waste from landfill but also to expand the range of materials that can be successfully recycled so that their full "worth" can be recovered and put to productive reuse.

We know how critical it is for everyone – consumers, industries and communities – to work together to make sustainability a reality. For this to happen, change is imperative. And we've started by changing our very own organization. Not only in the way we work but also in the work we do for our stakeholders. As an organization we are funded and governed by stewards (stewards are those industries that make and market the products managed in our recycling programs). We began in 2003, by developing and providing financing for the Blue Box household recycling program. Today we are operating a complex reverse logistics operation managing nine end-of-life materials. The programs created and managed by Stewardship Ontario touch the lives of Ontarians each and every day.

Our focus moving forward is to continue to work closely with industry stewards as they work to fulfill consumers' needs for more sustainable products and packaging. We must build on the successes of the past as we strive for continuous improvement in overall waste management and diversion performance. Where programs are not living up to potential, we will work harder with our partners to impact changes. We must address the on-going challenge of increasing recycling while continuing to optimize and invest in our recycling infrastructure, including new technologies and markets for secondary processed materials.

Another change that requires committed effort is the move toward Extended Producer Responsibility (EPR), which places the responsibility for end-of-life product management on the industries that produce products rather than on consumers and taxpayers. As government sets high, material specific targets that companies must reach, we as an organization must play an even greater role in helping our stewards meet their obligations.

Looking back over the last year, I can confidently say that one thing has not changed – our commitment to sustainability. 2009 brought many successes. From meeting and exceeding our Blue Box targets to implementing programs around municipal hazardous and special waste, Stewardship Ontario has made significant gains toward our goal.

Finally, as Chair of the Board of Stewardship Ontario, I would like to assure our stewards and stakeholders that we take governance seriously. Under our new regulation, we are embarking on a board renewal initiative designed to help us recruit the best talent possible to govern the enterprise. We are seeking industry stewards with broad executive experience and sound financial acumen who are grounded in the challenges of sustainability and are looking to provide leadership and oversight to a growing organization.

I invite you to read about the work we've done in this annual report. It will give you a better idea of the progress we've made and of the exciting new changes coming in the year ahead.

Jim Quick
Chair

An Interview with CEO Gemma Zecchini

> "We strongly believe that our multi-material approach delivers several benefits to both consumers and industry."

Q: What would you say has been Stewardship Ontario's biggest success this past year?

A: Managing multiple materials under one program umbrella has been Stewardship Ontario's contribution to waste management leadership. Ontario pioneered the first Blue Box Program to collect all packaging and printed paper from households in 1981. It's been a tremendous success for consumers who have avidly embraced this convenience. It's also proven successful for industries that put this material in the marketplace because it has given them a cost efficient capture system to divert Blue Box materials from landfill.

Stewardship Ontario began growing our multi-material approach "beyond the box" with the launch of its first household hazardous and special waste program in 2008. 2009 marked the first full year of operating a network of collection and recycling facilities for nine household special and hazardous wastes, including paint, batteries, automotive materials, pesticides and fertilizers. Our growth continues. In the same year that we launched our program, Stewardship Ontario responded to the Minister of the Environment's request to expand our program to include an additional 13 materials.

We strongly believe that our multi-material approach delivers several benefits to both consumers and industry, namely:

- A collection network that favours a one-stop drop approach where consumers can bring a number of materials to one location or event
- The ability to pool resources to educate consumers about proper product use and end-of-life disposal
- Shared administrative costs for running a province-wide program for 22 materials.

We look forward to having our expanded and consolidated special and hazardous waste program join our multi-material program family on July 1, 2010.

Q: Looking back over the past year, what was the biggest challenge for Stewardship Ontario?

A: Without a doubt, our biggest challenge in 2009 was expanding the collection network necessary to ensure consumers had a sufficient number of convenient locations to drop off their household hazardous and special waste. Forging partnerships with municipalities to ensure a stable network of permanent drop off locations and supplementing that core framework with return to retail sites for paint, batteries and automotive products was a key priority. Without a robust collection channel, it would be difficult for Stewardship Ontario to meet collection targets mandated by the province. Our stewards look to us to ensure their legal and compliance obligations are fulfilled so it was important that we not let them down.

A related challenge was finding the necessary recycling capacity for all those materials whose end-of-life calls for an "afterlife." Finding recyclers of paint, batteries and various automotive products such as oil filters and oil containers who could process materials according to our standards was an important focus in 2009. Our stewards and their consumers want to know that materials are being recycled to the greatest extent possible.

"Thinking beyond the box" has really become our mantra as we work with our partners to find new, innovative methods of waste reuse and remanufacturing.

Q: What sorts of initiatives in waste diversion can we look forward to in the future?

A: In 2010, Stewardship Ontario will begin managing 13 more end-of-life products, including pharmaceuticals and sharps, mercury devices, fluorescents, fire extinguishers and a wide variety of corrosive, flammable, reactive and toxic materials. We have been working closely with our partners to find the absolute best ways of managing these materials.

An Interview with CEO Gemma Zecchini continued...

> "We will be putting an emphasis on working with private and public sector partners to develop regional supply chains for materials that are recyclable but currently have no end markets."

Q: How will changes to the Waste Diversion Act impact industry and Stewardship Ontario?

A: While the result of the legislative process is always difficult to predict, we expect that the new Waste Diversion Act will require full producer responsibility for all materials that require diversion from landfill. That means all industries will have a level playing field when it comes to managing their end-of-life wastes. We also expect the bar on compliance will go up – with higher recycling targets backed by penalties for non-performance. For Stewardship Ontario that means we need to be ready to meet our stewards' heightened legal and compliance obligations.

Of particular importance will be the need to ensure industry can meet future recycling targets. We will be putting an emphasis on working with private and public sector partners to develop regional supply chains for materials that are recyclable but currently have no end markets. Our goal is to ensure that stewards have packaging choice in the marketplace. Stewards and consumers expect recyclable material to be recycled but commodities only have value if there is a buyer at the other end.

Q: What is your long-term vision for Stewardship Ontario?

A: Stewardship Ontario's transition to an operating company has widened our mandate and scope of responsibility and has taught us important lessons in how to manage a wide variety of materials in the marketplace. The board and management team have significant work in the months and years ahead and I am confident that with a strong management team, a committed board and the support of our stewards, we will bring the right mix of talent and experience to meet the coming challenges of 2010 and beyond. Our goal is to help build sustainable communities.

Trends we're watching

GLOBAL RECYCLING TRENDS

Globally speaking, Extended Producer Responsibility is not a new concept. Europe has long been considered a leader in the area of product stewardship with some legislation dating back to the early 1990s. Germany took the lead with its Packaging Ordinance of 1991, which required industry to manage packaging waste and eliminated taxpayer funding for this purpose.

The European Commission establishes recycling targets for a wide variety of end-of-life materials including packaging and requires EU member countries to have producer responsibility laws in place for many end-of-life products including used motor oils, oil filters, tires, batteries, as well as waste electronic equipment such as computers, televisions and appliances.

In France, the "Grenelle Law" will mandate 75% overall recycling of household packaging by 2012. Austria, Belgium, Germany and Sweden are now recycling more than 60% of their packaging waste annually – almost as much as Ontario whose performance rivals that of these jurisdictions.

While product stewardship is by no means new to North America, the recent environmental renaissance wrought by concerns over climate change, rapidly diminishing landfill and concerns about degradation of the environment caused by the dispersion of special and hazardous wastes has escalated the pace of product stewardship legislation. The product stewardship landscape has changed not just in Canada but in the US as well.

Electronics Programs

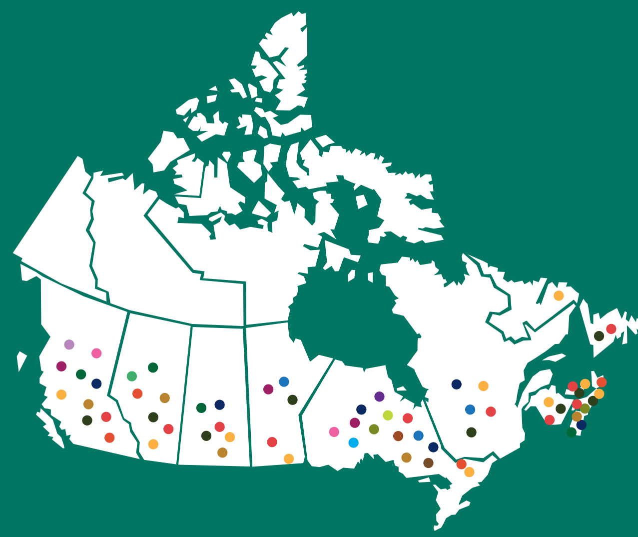
Nova Scotia, Alberta, Saskatchewan and British Columbia have all instituted programs for electronic waste. Ontario's electronics program was launched in April of 2009 and is set to expand significantly in 2010.

Household Hazardous and Special Waste

Programs for paint, solvents, used oil and related automotive materials as well as used tires are in place in most Canadian provinces including Ontario. In British Columbia, stewardship laws now also cover mercury containing devices, fluorescent bulbs and pharmaceutical waste – a requirement that will soon take effect in Ontario as well.

65 Programs Across Canada in:

- PLASTIC / ALUMINUM
- GLASS
- ELECTRONICS
- PROPANE
- OIL
- PHARMACEUTICALS
- TIRES
- AUTO
- BATTERIES
- MILK
- CONSTRUCTION/RENOVATION/DEMOLITION
- BLUE BOX
- SHARPS
- AEROSOLS
- PAINT
- MERCURY
- EXTINGUISHERS
- FLAMMABLES
- SERVICE PACKAGING



Printed Paper and Packaging

While the first Blue Boxes in Ontario made their way to residents' doorsteps almost 30 years ago, the Blue Box Program as a funding partnership between municipal governments and industry has only been in place since 2004. Since that time, Quebec's Eco Enterprise implemented a similar program modeled largely on Ontario's.

Ontario's Blue Box Program – currently posting a better than 66% recycling rate – is being enhanced to meet a higher target of 70%. In addition, government is working on a new legislative framework to replace the current Waste Diversion Act that would, among other things, extend full producer responsibility to printed paper and packaging materials. The government of Quebec has recently released its plans to increase industry's financial obligation under that program to 80%.

Manitoba has initiated a packaging and printed paper program due to launch in April 2010, while both BC and Saskatchewan have already begun the process of developing a legislative framework for similar programs in their respective jurisdictions.

With over 60 producer responsibility programs now in existence throughout Canada, we are well on our way to full, Extended Producer Responsibility for many end-of-life materials. We anticipate that this trend will continue in the foreseeable future.

LOOKING TO OUR NEIGHBOURS

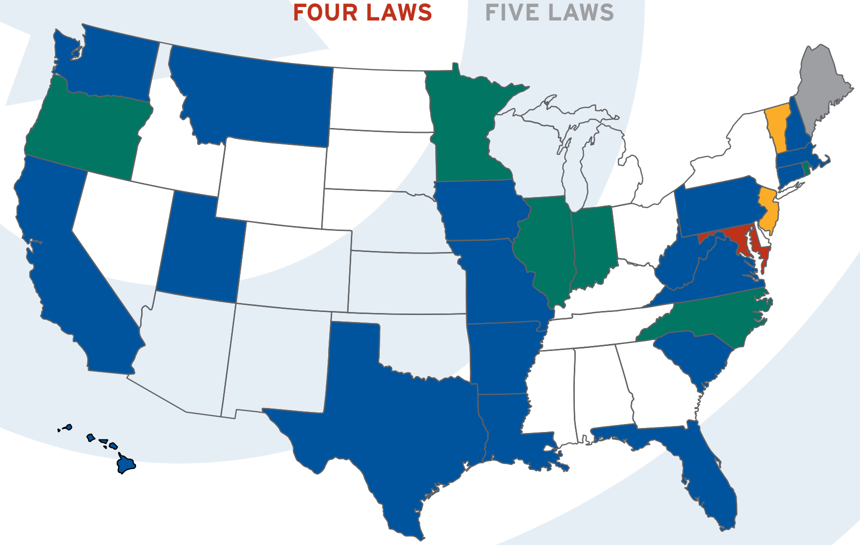
A look at waste diversion and producer responsibility initiatives in the US reveals a similar pattern. The U.S. is evolving from a jurisdiction that willingly accepted Canadians' waste for a price, to a nation that is fast adopting producer responsibility laws for a wide variety of wastes.

One reason for this development is the recent economic downturn that has seen several states and local governments struggle with diminishing tax revenues. Budgets are stretched and waste management budgets are no exception. This, as well as a growing environmental awareness among citizens, has accelerated the move to product stewardship. In 2006 only a handful of U.S. states had any producer responsibility laws at all. A mere three years later, some 19 states have at least one such law with several states having more. The state of Maine leads the pack with five producer responsibility laws for auto switches, batteries, electronics, fluorescent lighting and mercury thermostats.

Just recently Vermont became the first state to introduce a full, Extended Producer Responsibility law in its legislature. The Vermont Extended Producer Responsibility Act of 2010 replaces the Vermont Bottle Bill and extends producer responsibility from beverage containers to all packaging by calling upon industry to manage and finance the collection and recycling of these materials. The legislation also provides for reporting requirements and enforcement guidelines.

EPR Stateside 2009

ONE LAW TWO LAWS THREE LAWS FOUR LAWS FIVE LAWS



In 1975, the Swedish Government made a formal statement concerning EPR: "The responsibility, that the waste generated during the production processes could be taken care of in a proper way, from an environmental and resource-saving point of view, should primarily be of the manufacturer. Before the manufacturing of a product is commenced it should be known how the waste which is a result of the production process should be treated, as well as how the product should be taken care of when discarded."

The actual term EPR is defined quite simply as the extension of the responsibility of producers for the environmental impacts of their products to the entire product life cycle, and especially for their take back, recycling, and disposal. Or as one Canadian CEO recently put it: "Every jurisdiction in this country has embraced the concept. You make it. Consumers buy it. When they're done with it – it's back to you. It's the law in Europe now – and it will be the law in Canada."

Extended Producer Responsibility

Apart from its obvious benefits to sustainability, many manufacturers are realizing the opportunity that lies in Extended Producer Responsibility. In fact, by applying EPR, some businesses have actually improved their products (everything from enhanced reliability and performance to energy efficiency). They have also discovered that sustainable products can earn greater satisfaction and loyalty from their customers. After all, consumers are demanding more sustainable products and packaging.

and the Role Stewardship Ontario Can Play

Reducing waste in products and packaging helps reduce potential future environmental liabilities. It can also save businesses money through increases in efficiency and recycling of previously wasted materials. In fact, major manufacturers are realizing that over the long run, it is more efficient to reuse certain components and recapture the value added during the original manufacturing process.

At Stewardship Ontario our role is to work with stewards to help them meet their EPR responsibilities effectively and cost efficiently. To do this well depends on several factors including willing and educated consumers, a variety of service delivery partners to separate and process materials in a way that allows their economic value to be preserved and the presence of end markets eager to use our outputs as substitutes for virgin commodities. The role Stewardship Ontario plays in constructing that high value reverse supply chain is in everyone's interest.

Of course, this only applies to those materials that are recyclable. In the case of those that are not, it is our responsibility to see to it that materials are handled in an environmentally responsible manner.

As Stewardship Ontario works with stewards to help them prepare for the responsibilities and compliance obligations that come with EPR we can look to the US and to Europe, Asia and other critical international trading regions. In the global marketplace, EPR is fast becoming a passport for doing business internationally.

When it comes to waste, there is an afterlife

At Stewardship Ontario, we believe that EPR can help us set ambitious goals for recycling because it will change the way industry looks at packaging from the very beginning. The move to EPR will motivate our own organization to find new ways to manage all types of printed paper, packaging and hazardous products to ensure that consumers have a wide range of sustainable products to choose from.

CASE STUDY 01

Walmart is Taking the Lead on Sustainable Packaging

At Walmart, they know that being an efficient and profitable business and being a good steward of the environment are goals that can work together. Their goal is to reduce the amount of packaging in their supply chain by 5% by 2013.

In 2008 Walmart began using a Packaging Scorecard to measure and recognize its entire supply chain based upon each company's ability to use less packaging, utilize more effective materials in packaging and source these materials more efficiently relative to other suppliers.

"Making smarter, sustainable packaging choices is one of the best ways Walmart and our suppliers can make positive environmental change," said Guy McGuffin, Vice President and Sustainable Packaging Network Leader, Walmart Canada Corp. "Through better education and stricter standards, we will make the sustainability of packaging a key criterion for how we pick products to put on our shelves."

"Many times, we can pick up a cardboard box and see opportunities to reduce the weight, cube size, and materials used," said Walmart's McGuffin. "Even small changes can have an immense impact, not just for the environment, but for our business. When we use less packaging, we spend less on materials, ship less weight, and require less space in our stores. At the same time, fewer trees are cut, less energy-intensive production occurs, and less waste is produced. There's great alignment between environmental and business sustainability."

At Walmart, their buyers help them identify where packaging can be improved. For example, one of their buyers pointed out that an infant car seat could easily be transported in a thick plastic cover instead of a large, bulky box. With this change, they were able to not only eliminate the box, but also store more car seats on their distribution trucks causing their shipping and fuel costs to drop. And now their customers can see and touch the seat before they purchase it.

Packaging Achievements:

Together with their suppliers, Walmart is making great strides to improve their packaging and reduce waste.

- Walmart pledged to transition all of the liquid laundry detergent on its shelves to the concentrated "compact" versions of detergent by May 2008. They projected that this change will save more than 125 million pounds of cardboard and 95 million pounds of plastic resin.
- They've reduced the amount of packaging in their digital media department by 50%. As part of this change, they worked with Apple to convert iPod packaging to 100% renewable, recyclable and more sustainable materials. The package is also reusable and dramatically reduced in size.
- By making the packaging a little smaller on nearly 300 items in its Kid Connection toy line, they used 497 fewer shipping containers and they estimate that more than 3,800 trees were saved.
- To date, they have redesigned 75 items to eliminate PVC as a packaging material on all private brand items where suitable alternatives exist.

CASE STUDY 02

Concentrated Procter & Gamble detergents continue to deliver value and performance for customers and help reduce waste

In early 2009, Procter & Gamble Inc. discontinued its non-concentrated powder laundry detergents and transitioned its entire portfolio of Tide powder laundry detergents to its concentrated formulation. By April 2009, P&G had converted its entire detergent portfolio – Tide, Gain, Cheer and Ivory Snow – to its new compact format.

Compact detergents provide consumers with the same or greater number of loads in a smaller package. This delivers great value for shoppers who have a better performing product in a more convenient format that is easier to carry, scoop and store. The concentrated formulas and smaller boxes also allow for increased efficiency across the entire supply chain, including reduced fuel consumption and warehouse space usage.

Tide's concentrated formula reduces packaging by 31% to 59% from its original format.

The win/win transition from non-concentrated to concentrated formulas is consistent with the company's strong commitment to sustainability and sustainable development.

"Following the successful concentration of our liquid laundry detergents, we're pleased to move to an entirely compact powder detergent lineup as well," says Rob Chambers, P&G Canada Fabric Care brand manager. "P&G is committed to producing more sustainable products and laundry category compaction is the right thing to do for the consumer, the retailer and the environment."

Used paint gets a fresh coat

Reprocessing used paint into new paint is how one company is finding success. Boomerang of Quebec offers reclaimed products made from unused portions of recycled paint and stain remains.

Paint that comes in for recycling gets sorted according to colour batches.

PAGE 11

Once the paint has been sorted it is drained into giant containers. It is then cleaned and filtered.

Quality control is assured throughout the process.

The filtered, cleaned paint becomes new recycled paint and is available to buy in premixed colours.

Q & A
with VP of Operations
Lyle Clarke

"The best way to eliminate non-recyclable packaging is to make all packaging recyclable."

Q: As head of Operations, how are you helping realize Stewardship Ontario's future?

A: My job is to turn our vision into reality. To do that I need to ensure we have the talent and resources to optimize our collection, transportation and processing activities to deliver the highest level of waste diversion at the lowest possible cost. I also need to make sure that every type of printed paper, packaging and hazardous and special material entering the market is managed sustainably.

Q: What are some of the challenges you're encountering?

A: Any packaging that makes recycling difficult is a challenge. We understand that consumers expect newer and better products. Our stewards work very hard to satisfy that need. Our stewards also make changes to their products and packaging in order to promote sustainability and protect the environment. This dynamic drives our economy and continuously improves our standard of living.

Sometimes consumers like a new product or package that presents challenges for our recycling system. Sometimes new packaging can have a net benefit for the environment, but still present challenges for our recycling system.

Q: Should Stewardship Ontario discourage the use of non-recyclable packaging?

A: Our role is not to dictate what stewards sell or consumers buy, or what is more environmentally sustainable. We can provide advice on what materials are easier and less costly to recycle than others and we encourage stewards to choose those materials. However, the last thing we want to do is be a barrier to product innovation. The best way to eliminate non-recyclable packaging is to make all packaging recyclable.

Q: How can Stewardship Ontario help make all packaging recyclable?

A: We need to work with our stewards to help them choose materials that can be more easily recycled. We also need to drive innovation in the recycling industry – innovation that can transform all types of used packaging into new products. By investing in new technology and promoting innovation through our Market Development Plan, we're supporting the kind of product innovation that consumers actually want, and helping to build Ontario's "green economy" at the same time.


Region of Peel
Questions?

Our Programs

Stewardship Ontario's goal is to work in partnership with stewards, our service providers and the public to help create sustainable communities. We make this a reality through our our Blue Box and our municipal hazardous and special waste (MHSW) programs.

BLUE BOX OVERVIEW

- Once again in 2009, the Blue Box Program proved it was both environmentally and economically sustainable achieving both revenue and recycling targets
- The program is currently being revised to achieve a newly mandated recycling target of 70%. The revised plan will be submitted to the Minister in April 2010
- A market development strategy for "problem" Blue Box plastics has been launched
- We've strengthened our relationship with our municipal partners, and reached agreement with them on how to reward municipalities that improve performance
- We've provided for sustainable cash flow to municipalities to continue operating Blue Box recycling to almost 5 million households across the province

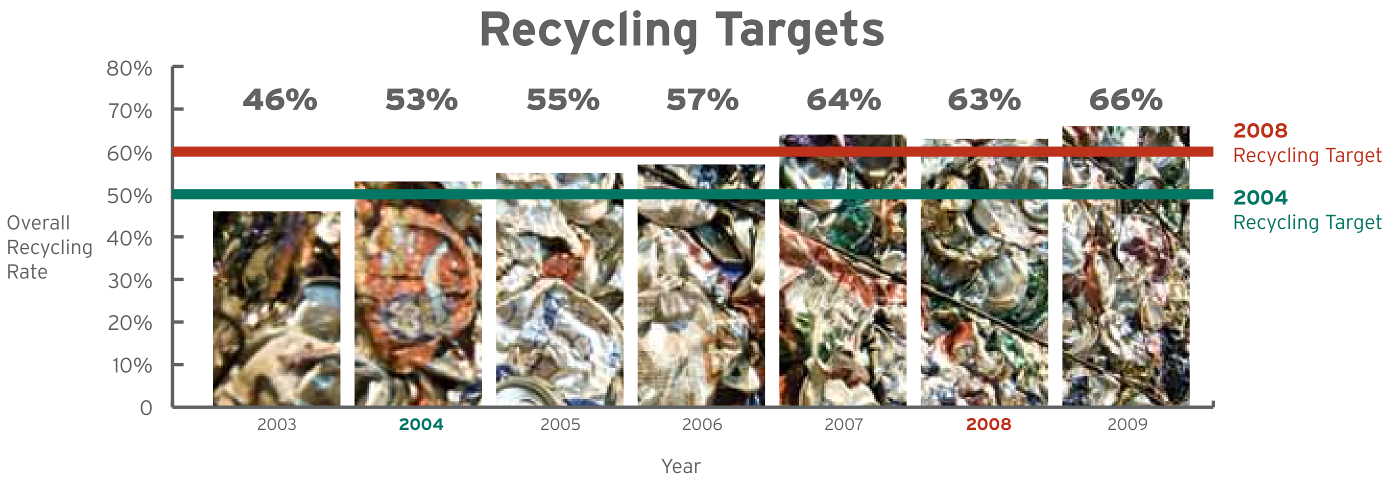
Looking to the future, we're determined to take advantage of our growing mandate to optimize the collection and processing system and reduce costs, to promote the adoption of new technology and facilitate the emergence of new recycling capacity.

MHSW OVERVIEW

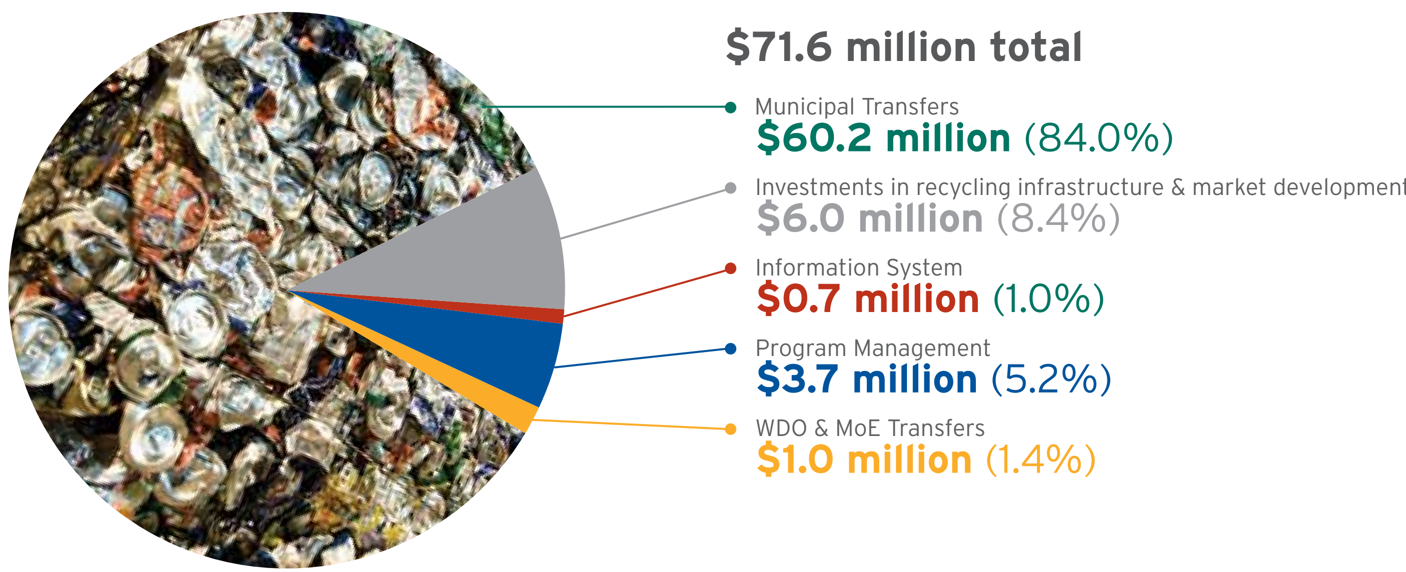
- We have established a collection network that provides accessibility and convenience for consumers and have supported this with promotion and education to create awareness about proper product use and end-of-life management
- We are on track to reach our performance targets for the majority of the materials managed under our program – meeting or exceeding targets for five out of nine materials and we continue to optimize/refine the current MHSW program in order to meet cost/collection targets
- We responded to Minister of the Environment's request to expand our program from 9 to 22 materials as of July 1, 2010

Blue Box Program Performance

In conjunction with the Ministry of the Environment and Waste Diversion Ontario (WDO), the Blue Box Program Plan set out diversion objectives to recycle 50% of eligible Blue Box waste by 2004 and 60% by 2008. The chart (below) illustrates that the program has exceeded its recycling targets since its inception.



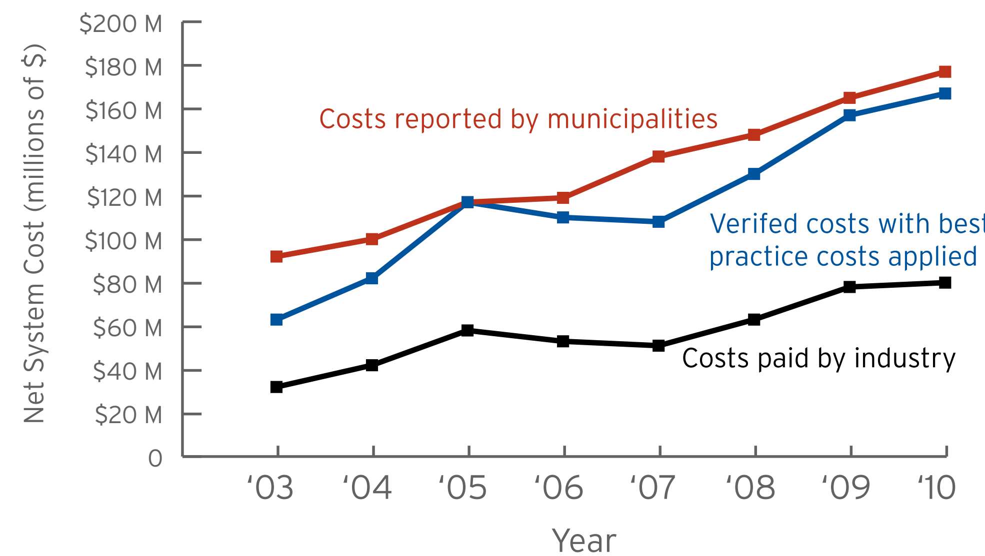
2009 Blue Box Expenses



Program Cost History

Our goal by the end of 2011 is to reach the 70% recycling target and given the progressively positive results we've managed to achieve so far, it appears that we are well on our way to reaching this important objective.

The following charts demonstrate how cost controls have steadily improved since 2003, and the breakdown of how steward payments collected under the program are allocated under our 2010 budget.



BLUE BOX

Part of the challenge for Stewardship Ontario is to contain Blue Box costs for our stewards. We will continue to do this by:

- **Exercising due diligence to ensure industry's share is fair**
- **Conducting rigorous audit and verification processes to make sure annual cost assessment is correct**

Looking to the future, Stewardship Ontario is determined to take advantage of its growing mandate to optimize the collection and processing system and reduce costs. We plan to promote the adoption of new technology and facilitate the emergence of new recycling capacity. In doing this, Stewardship Ontario will contribute to the development of Ontario's green economy.

1 million
tonnes recycled in 2008

5 million
tonnes recycled since 2003

5 million
Ontario households have access to recycling

90%
say they recycle regularly

An Idea with Curb Appeal

What started in 1981 as a pilot project has grown over the decades to become one of the most successful waste recycling programs in the world. From the very outset, Ontario citizens have embraced the idea of using their Blue Boxes to divert household packaging waste. This simple alternative to sending all waste to landfill became a "Made-in-Canada" solution, winning a UN award for environmental innovation along the way. Stewardship Ontario's legislated responsibility for the Blue Box Program began in 2004 and the program continues to provide households with a way to contribute to a more sustainable community.

Taking Action

Our stewardship of the Blue Box Program means that we raise 50% of the net costs from industry and use that money to reimburse the municipalities for their coordination and operational costs. We work diligently to develop best practices that can be used to reward municipalities that optimize recycling efficiency. Stewardship Ontario also plays a leading role – collaborating with municipalities, other levels of government and the private sector – in developing new technologies and markets for recycled materials.

Success is in the Box

Our role in helping stewards divert packaging waste efficiently and effectively have resulted in the following impacts:

- Our diversion targets have been exceeded year after year for the past four years
- Our financial obligations to municipalities have been consistently met on a quarterly basis year after year
- All stewards' legal obligations under the Waste Diversion Act have been discharged with no compliance risk
- Costs for the Blue Box Program have been fairly apportioned among stewards
- Key investments have been made in recycling infrastructure

Best Practices

Clear Bag Requirements for Garbage:
A Better Practice of Program Compliance

With the goal of increasing Blue Box diversion, Madoc Township & the Municipality of Centre Hastings were selected to participate in a Clear Bag Program pilot.

- All garbage was to be placed in clear bags
- No recyclables allowed and no household hazardous or special waste
- Non-compliant bags were left at curbside and not accepted at landfill

Impacts

- Blue Box diversion rate went from 33% to 45% (+12%)
- Municipal recycling tonnage increased by 9%
- Municipal garbage tonnage decreased by 34%

Clear bag requirements for garbage do in fact increase recycling compliance and diversion performance and enforcement was a key component to the program's success.

To encourage wider adoption among municipalities the results from this project have been shared as best practices with municipalities serviced by Quinte Waste Solutions.

Blue Box Market Development

Stewardship Ontario is committed to ensuring that the full range of printed paper and packaging put into the market by our stewards can be successfully recycled. This requires that each material have a complete recycling "supply chain" from the point at which it is put into a blue box by consumers, to the point at which it becomes an input into something new.

No one link in this chain is sufficient to ensure successfully recycling. The group of materials known as "mixed rigid plastic" and "plastic film" are composed of a range of very different materials. If they are to be used in new products, the mixture of materials must undergo secondary processing after it is collected and sorted from other blue box materials. For this to be economically viable, there must be a large and reliable supply of input material from the blue box, and the secondary processing system must be able to supply plastics manufacturers with a large and consistent supply of processed plastic to substitute for "virgin" material. Plastics manufacturers are also more likely to include recycled material if there is consumer demand for products with recycled content.

Stewardship Ontario's market development strategy therefore targets the entire system, with a view to constructing a stable and economically viable supply chain for the collection, processing, reprocessing and marketing of recycled plastics. $2.4 million has already been committed to the plastics program, and an additional $9 million will be raised over the next 3 years, all from stewards of plastic packaging.

EFS & Entropex

Highlights in 2009 include:

- Grants have been awarded to two major initiatives with EFS Plastics and Entropex
- Support has been provided for other initiatives such as with NAPCOR, the recycling association for recycling Polyethylene Terephthalate (PET) packaging, which focuses on recycling of thermoform PET

Together the EFS and Entropex projects will add up to 25,300 tonnes of processing capacity per year. If successful, further investments could increase processing capacity to approximately 70,000 tonnes per year.

This is a 5 – 7 year project

Project Description:

Canada generates an estimated 345,000 tonnes of "other" recyclable residential plastics each year. This excludes Polyethylene Terephthalate (PET) and High Density Polyethylene (HDPE). Much of this plastic is typically landfilled due to contamination and commingling.

To address this issue, both EFS and Entropex will deploy different innovative approaches to plastic recycling that will produce high-quality plastic resin that can be used for consumer products. This product will be cost competitive with resin produced directly from petrochemical sources. The resulting increase in plastic recycling will put less stress on our limited landfill space.

Going forward Stewardship Ontario will provide support for other initiatives crossing both MHSW and Blue Box plastics.

Unical

Commissioned in mid-2009, Unical Glass Processing Plant has been processing glass from four municipalities (Toronto, Peel, Durham and Hamilton) and is continuing to develop agreements with other municipalities, recently adding Peterborough, which will provide further savings. As the strength of the economy improves, Stewardship Ontario expects demand for the products from Unical will continue to grow and additional glass will be processed and savings realized from this investment.

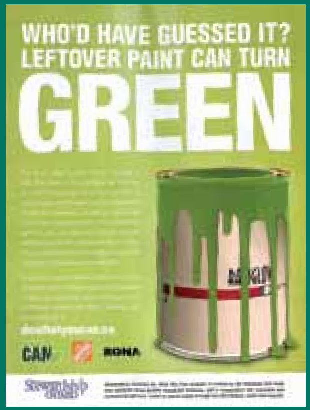
In the future, Stewardship Ontario will consider such market development investments for other materials where there are barriers to increasing recycling.

Unical At-A-Glance

- $1.75 million municipal partnership grant
- 6 municipalities have committed
- 5 have entered into long-term contracts - others now negotiating contracts
- $1.4 million savings to date
- $8 to $10 million project savings over seven years

MUNICIPAL HAZARDOUS OR SPECIAL WASTE PROGRAM (MHSW)

While tossing a pop can into a Blue Box is easy, responsibly managing other household waste presents more of a challenge for Ontario residents. The launch of the MHSW Program in 2008 is making it easier for Ontario's 12.5 million consumers to recycle even more of their household waste by creating a "go to" infrastructure to collect end-of-life materials such as: paint/coatings, solvents, non-rechargeable batteries, pressurized containers, fertilizers/pesticides, antifreeze, oil filters and oil containers. In other words, products that require special care at end-of-life.



RETHINKING WASTE

To make drop-offs easy and convenient for residents, three collection streams were developed:

- municipal-based depots and collection events
- retail-based collection of paints and batteries
- incentive-based system for auto materials

In total, the collection network consisted of:

- 87 municipal depots and 217 municipal collection events
- 238 retail collection locations for paints and batteries
- 55 automotive centres to collect auto MHSW

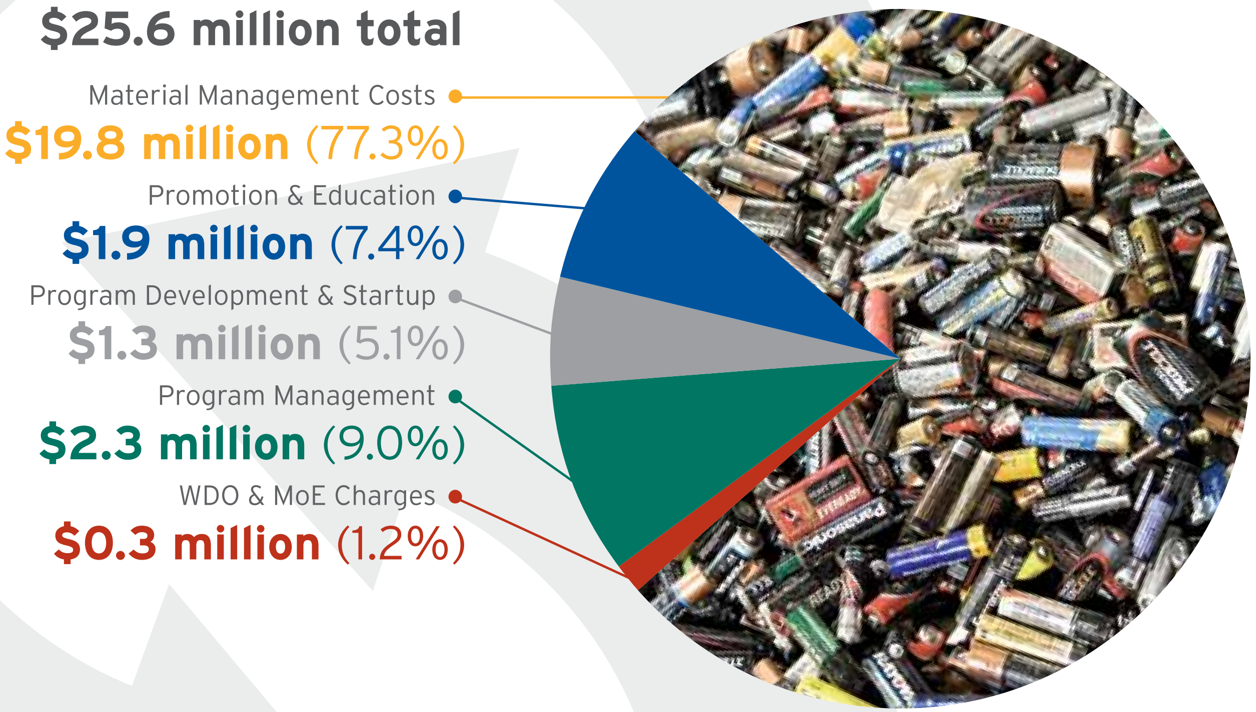
Our 465 MHSW steward partners already have 100% responsibility for all post collection costs (both for transporting and processing). Stewardship Ontario is also responsible for the expansion of consumer accessibility as well as helping to meet ambitious collection and diversion targets set out in the Plan.

The current infrastructure consists of a post-collection network of:

- 40 approved transporters and processors
- 26 approved material processors

A large part of Stewardship Ontario's role in the municipal hazardous and special waste program has also been in consumer education. By knowing exactly what can be dropped off and where, residents are more encouraged to take part in this expanding program.

MHSW Program Expenses



Overall learning from our first full year of operation of the MHSW Program has provided us with a more realistic understanding of revenue expectations and costs. The focus in 2010 will be on optimizing the transportation system to reduce costs, while taking action to deal with lagging performance of some materials.

Updated as of May 18, 2010

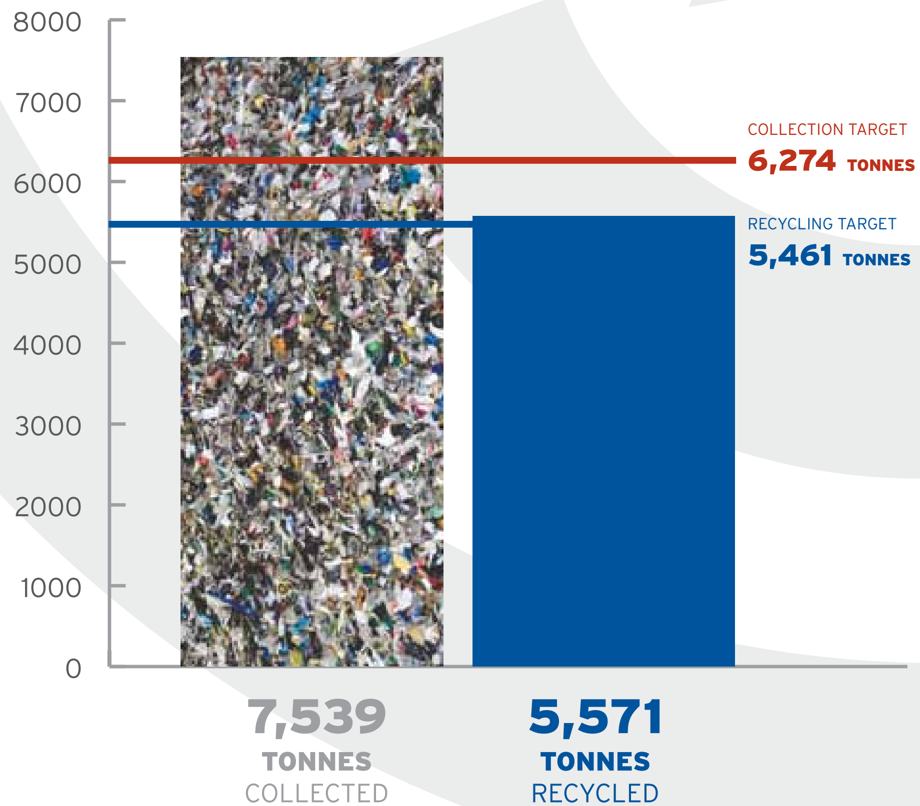
MHSW Performance Summary

January 1, 2009 through December 31, 2009

Paints & Coatings

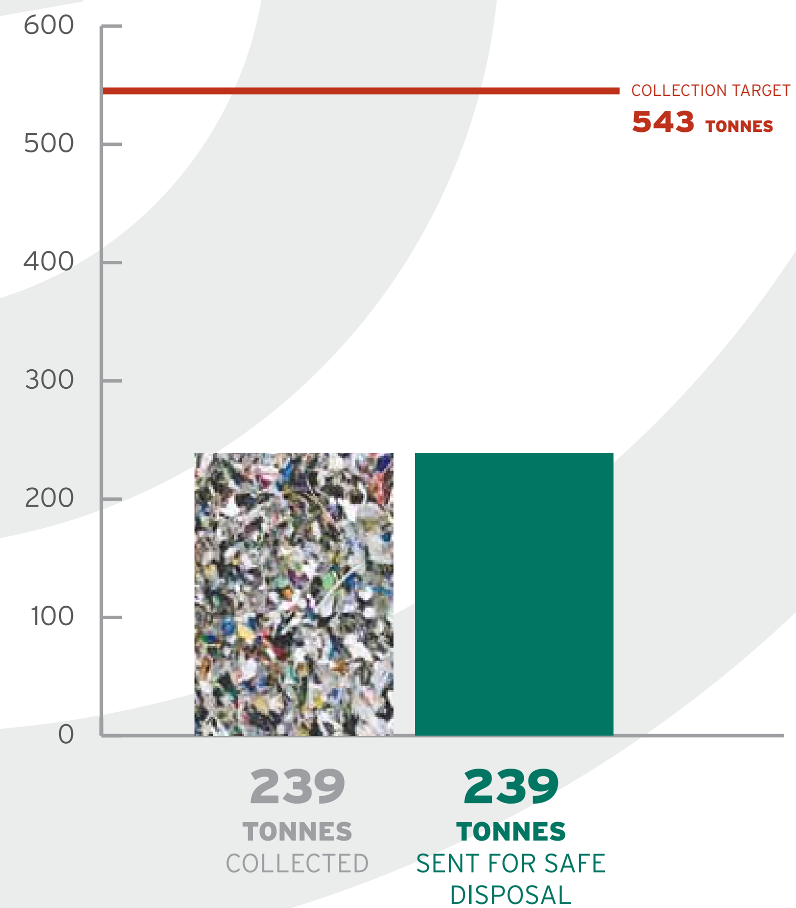
64.9% Collection Rate

48.0% Recycling Rate



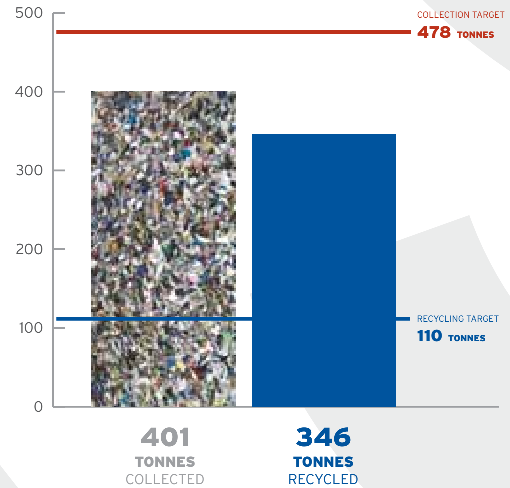
Solvents

16.7% Collection Rate

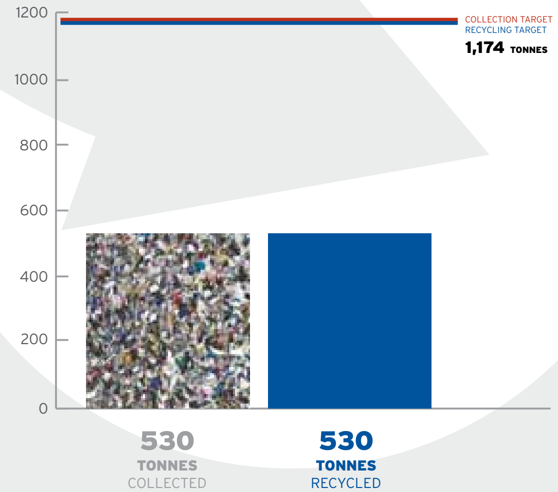


Updated as of May 18, 2010
MHSW Performance Summary Continued
January 1, 2009 through December 31, 2009

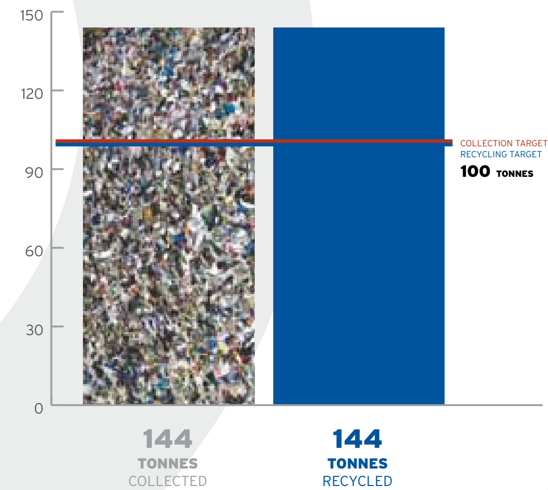
Batteries
5.4% Collection Rate
4.7% Recycling Rate



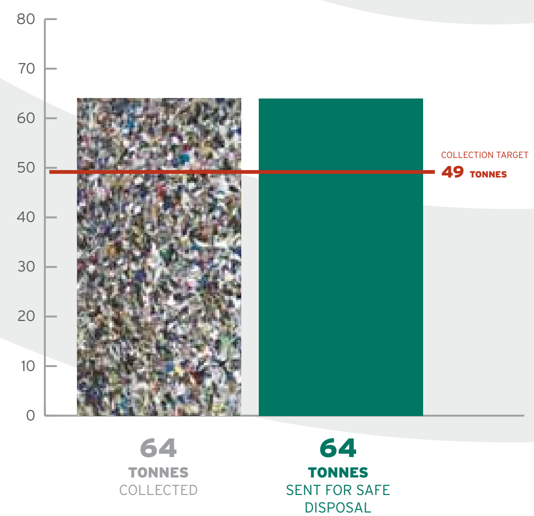
Pressurized Containers - Refillable
42.0% Collection Rate
42.0% Recycling Rate



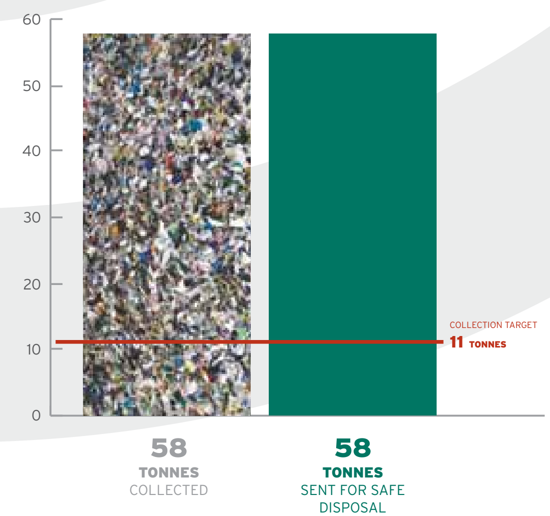
Pressurized Containers - Non Refillable
21.6% Collection Rate
21.6% Recycling Rate



Pesticides
67.8% Collection Rate



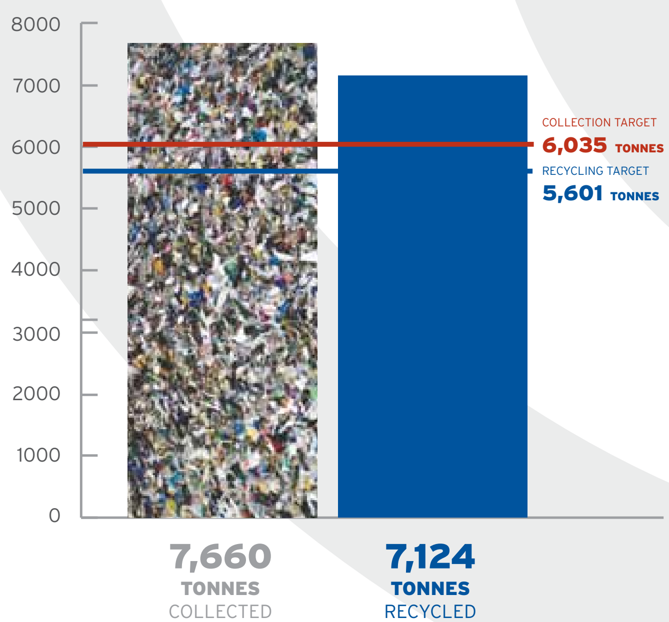
Fertilizers
175.4% Collection Rate



Updated as of May 18, 2010
MHSW Performance Summary Continued
January 1, 2009 through December 31, 2009

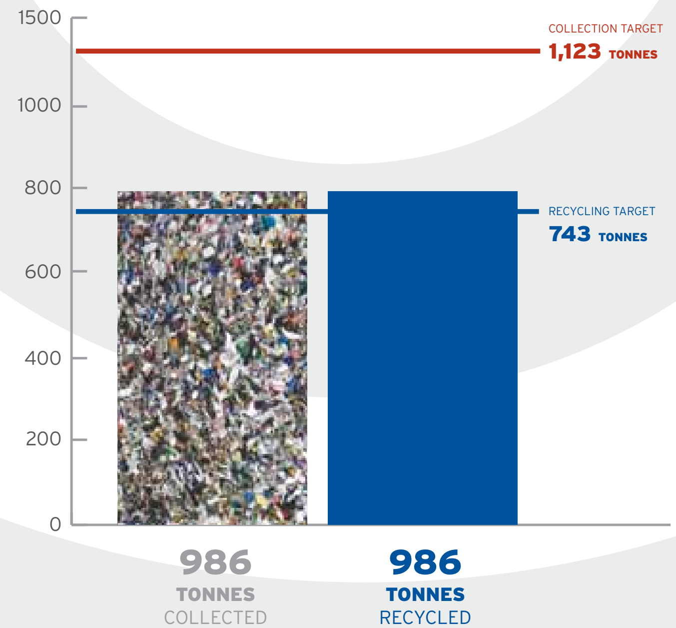
Oil Filters

88.2% Collection Rate
82.0% Recycling Rate



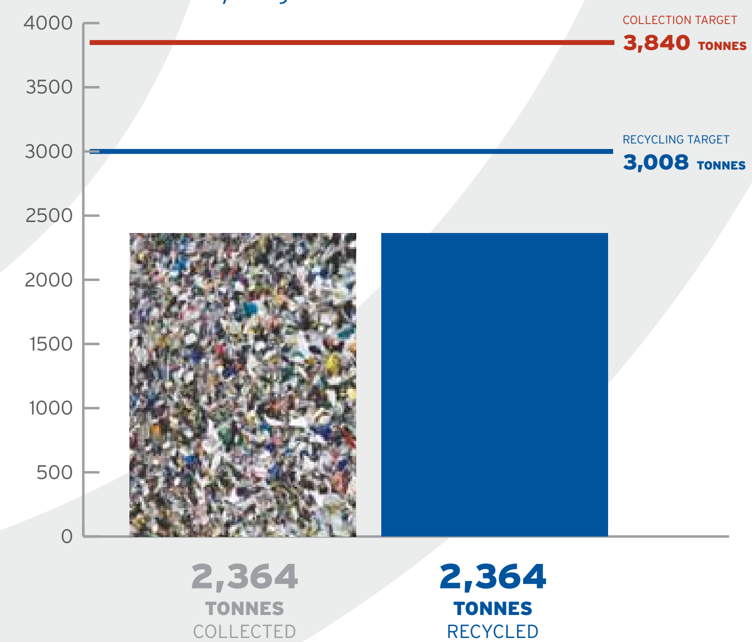
Oil Containers

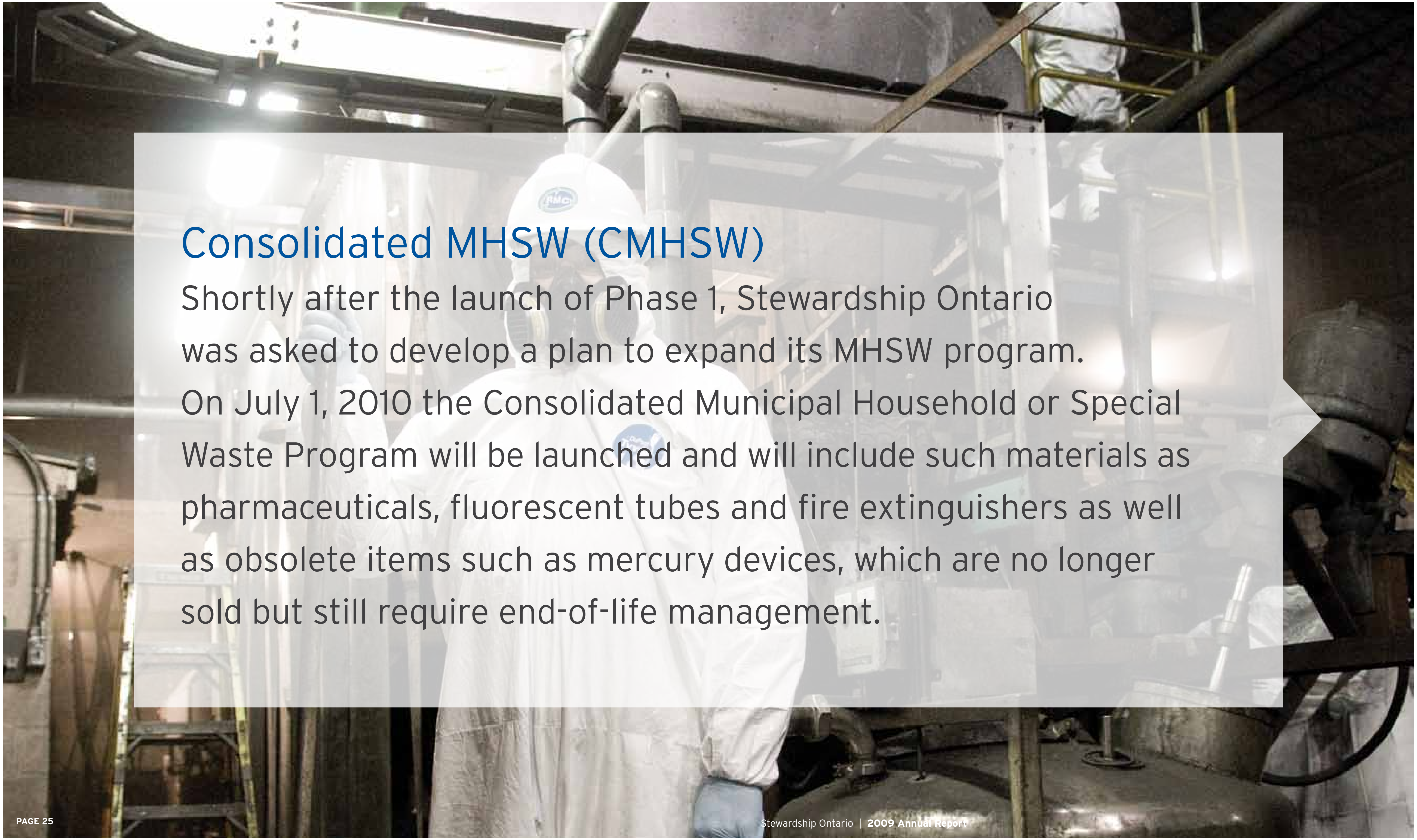
28.5% Collection Rate
28.5% Recycling Rate



Antifreeze

18.5% Collection Rate
18.5% Recycling Rate





Consolidated MHSW (CMHSW)

Shortly after the launch of Phase 1, Stewardship Ontario was asked to develop a plan to expand its MHSW program. On July 1, 2010 the Consolidated Municipal Household or Special Waste Program will be launched and will include such materials as pharmaceuticals, fluorescent tubes and fire extinguishers as well as obsolete items such as mercury devices, which are no longer sold but still require end-of-life management.


BIKER RALLY

Management Discussion and Analysis

Vision, Core Business and Strategy

What is our business?

2009 was a year of significant transition for Stewardship Ontario.

Originally established in 2004 to serve as a financing organization mandated under the Waste Diversion Act to raise industry funds to reimburse municipalities for 50% of the costs of Blue Box recycling, Stewardship Ontario has since evolved into a reverse supply chain business. We are responsible for the end-of-life management of several materials including paint, batteries, solvents, oil filters, oil containers, antifreeze, pesticides, fertilizers and pressurized containers. The municipal hazardous and special waste program launched on July 1, 2008. 2009 marked the first full year of operation for that program.

While our financing mandate continues under the shared responsibility model for the recycling of residentially generated printed paper and packaging, our direct end-of-life management responsibilities have led to the acquisition of new competencies and the development of a new strategic direction. We are no longer just in the business of funding sustainability - we are in the business of doing it.

In 2010, our mandate for end-of-life management will extend to more materials such as pharmaceuticals, sharps and syringes, fluorescents, mercury-containing devices and a number of other flammables, corrosives and toxics. Our job is to divert the materials under our stewardship programs from landfill and ensure their full value is recovered at the end-of-life. Wherever possible, we are looking to find ways to turn today's waste into tomorrow's consumer products. Consumers expect it, our stewards require it and it's our job to meet that need.

What is our revenue model?

Our program is funded on the basis of producer responsibility – the industries that make and sell regulated products or packaging are responsible for the costs of diversion. In the case of the Blue Box Program that responsibility is shared equally between industry and municipalities. In the case of our municipal hazardous and special waste program, the responsibility rests 100% with industry. In the case of consumables and durables (the two main types of material categories in our combined programs) the amount of material in the marketplace that is available for collection and recycling at the end-of-life is calculated on the basis of sales into the marketplace.

The revenue model for Blue Box Program is more stable than that for MHSW for a couple of reasons. Besides being a more mature program, the Blue Box Program fees are set to recover the previous year's costs which have already been incurred and verified. The MHSW program sets fees on the basis of projected costs. At this early stage in the program's life cycle, those projections are based more heavily on assumptions rather than historical experience.

What is our strategy?

Our strategy is to provide an optimum collection infrastructure that is readily available for Ontario consumers to dispose of their printed paper and packaging as well as their household special and hazardous wastes. The Blue Box is the most convenient and cost effective mechanism for delivering this service for printed paper and packaging. Almost 5 million households have access to curbside collection in this province. For other materials in our MHSW program, the local municipal depot, collection events and participating retail networks provide accessible drop off points. The collection system is supported through public information and education campaigns to create optimal awareness of return and disposal options.

Our goal is to meet the collection and recycling targets set out by the Province of Ontario for each of our material streams. Where we encounter barriers to effective recycling, our job is to find solutions through research and development and through market development initiatives. In the case of consumable goods that are intended to be fully consumed, our goal is to educate consumers to use products to their fullest extent possible and find ways to gift the remainder to those who can put them to good use.

Our goal is to balance accessibility and government-mandated targets against cost to create a win/win/win solution for consumers, our environment and stewards.

Key Performance Drivers

Our key performance measures are simple.

1. Achieve planned revenue to meet program cost obligations

- The Blue Box program continued to thrive in its sixth year of operation. New stewards continue to be identified and reported packaging volumes exceeded plan. Despite the recession, and perhaps as a direct cause, increased packaging volumes suggest that consumers may have enjoyed more stay-at-home meal opportunities than in previous years. Both of these factors caused Blue Box fee revenue to grow 6% over the projection. Investment income also posted a significant improvement over plan.
- The MHSW program did not meet revenue targets because certain high revenue materials in the program, such as paints and coatings and oil filters were affected by the impact the economic downturn had on home improvement, renovation and construction as well as automotive sales and service. Overall, program revenues lagged projections by 9% in 2009.

2. Live within the budget

Blue Box:

- The Blue Box program met its financial obligations to municipalities.
- The excess of expenditures over budget in Blue Box Program research and development reflects the timing of funds required to pay for Continuous Improvement Fund (CIF) & Effectiveness and Efficiency (E&E) project commitments. The lag time on project approval and start up makes it difficult to predict when a particular investment project will be green-lighted and when committed funds will be called upon. This item is completely offset by recognition of revenue and has no net impact on the Statement of Operations.
- Stewardship Ontario also invested in the development of an Enterprise Information System (EIS) to improve integration between the Blue Box and MHSW programs and data security.

Municipal Hazardous or Special Waste Program

- MHSW direct material expenses were below plan largely because of lack of performance in the automotive materials category.
- Individual material results varied greatly and the Statement of Operations reflects the consolidated results of the program.
- A timing variance accounts for the excess of expenditures in promotion & education activity.
- The expensing of all program development and start up costs reflects the decision of management based on the recommendation of its auditors that capitalizing items with uncertain future value is not in keeping with current accounting rules.
- With six operating quarters of data, Stewardship Ontario now has a better baseline from which to set benchmarks, fees and targets moving into the second full year of operations and moving into the launch of the expanded or "Consolidated" MHSW program.

Common costs

- Common costs to administer and oversee both programs came in 5.7% under Plan.

3. Provide sustainable operating cash flow for the business.

- On a corporate basis, Stewardship Ontario posted a surplus of $1.9 million due largely to excess receipts from printed paper and packaging.
- Stewardship Ontario's unrestricted assets amount to approximately one year of common costs. Given the 90-day time lag in recycling receivables from stewards, the unrestricted net assets provide cash flow to the business.
- Restricted assets were increased to provide for the plastics market development and the completion of the EIS project. As with other capital intensive projects requiring long lead times to secure partners, it is often difficult to predict the timing of expenditures (see note 9).

4. Achieve collection targets and recycling targets (for applicable materials)

- Collection targets were exceeded for printed paper and packaging, paint and coatings, batteries, fertilizers and non-refillable pressurized containers.
- Some materials especially in the automotive materials category fell short of targets. The reasons varied by material:

  Oil filters – data indicates that material generation was over-estimated due to a reliance on outdated information regarding weights

  Antifreeze – the frequency of servicing automobiles with this product was likely over-estimated especially for a recessionary period

  Oil containers – a combination of inadequate incentives and lack of processing infrastructure contributed to the disappointing results in this material category

  Refillable pressurized containers – because of the high demand for scrap metal, this material was collected and recycled by scrap metal dealers who did not register with Stewardship Ontario

The prospects for Stewardship Ontario as a multi-material product stewardship compliance organization are tied to its ability to continue the expansion and leverage of its regional collection infrastructure and to distribute costs for administration, consumer education and research and development across a basket of goods. Continued market investment in infrastructure and the development of regional supply chains for certain commodities will be necessary to ensure targets are met.

Capability to deliver results

The most significant change in 2009 was the strategic decision by Stewardship Ontario to repatriate key management decision-making responsibilities back from our contracted service providers. In early 2009, key senior management roles were filled. This helped the organization through the decision to repatriate the majority of administration and back office operations, including the investment in a state of the art SAP technology system that will capture and provide key program and financial information, integrating data from five separate systems. The organization began 2009 with two staff and ended the year with 17. While this exposes the organization to a new set of risks, it removes the risk and expense around the concentrated reliance on a third party. The launch of the new system and repatriation of the business is slated to take place in March 2010.

Risk to the business

Stewardship Ontario has faced some unique financial reporting challenges in past years and these will continue to be an issue in 2009 and beyond. The most interesting reporting complexity we face is that the majority of source transactions for both revenue and direct material costs for the MHSW program are triggered by reporting from third parties. This poses a challenge for both Stewardship Ontario and our auditors, in validating the completeness of both the revenues and direct material costs. This challenge places significant onus on the compliance and auditing function to validate that reporting from third parties is accurate.

Kathleen Kennedy
VP, Finance & Corporate Affairs

Gemma Zecchini
CEO

Stewardship Ontario

Financial Statements
For the year ended December 31, 2009

Contents

BDO

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Toronto ON M5J 2J8 Canada

Auditors' Report

To the Members of
Stewardship Ontario

We have audited the balance sheet of Stewardship Ontario as at December 31, 2009 and the statements of changes in net assets, operations and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as explained in the following paragraph, 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.

Due to the self-registration of participants in the stewardship program as described in Note 2(a) to the financial statements, the completeness of revenues is not susceptible to satisfactory audit verification. Accordingly our verification of these revenues was limited to the amounts recorded in the records of the Organization. We were not able to determine whether any adjustments might be necessary to steward fees, excess (deficiency) of revenue over expenses, accounts receivable, deferred revenue, and net assets.

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 revenues referred to in the preceding paragraph, these financial statements present fairly, in all material respects, the financial position of the Organization 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.

BDO Canada LLP

Chartered Accountants, Licensed Public Accountants

Toronto, Ontario
February 26, 2010

Balance Sheet

December 31	2009	2008
Assets		
Current		
Cash	$ -	$ 7,237,286
Investments (Note 3)	76,286,121	46,445,645
Accounts receivable	7,712,633	6,864,684
Prepaid expenses and deposits	341,112	28,893
Due from Waste Diversion Ontario (Note 4)	-	681,762
	84,339,866	61,258,270
Capital assets (Note 5)	55,553	11,968
Intangible asset (Note 6)	917,164	-
	$ 85,312,583	$ 61,270,238
Liabilities and Net Assets		
Current		
Bank overdraft (Note 7)	$ 6,408,237	$ -
Accounts payable and accrued liabilities	30,166,423	23,636,526
Deferred revenue (Note 8)	30,576,188	21,330,674
	67,150,848	44,967,200
Net Assets		
Invested in capital and intangible assets	972,717	11,968
Unrestricted	7,742,558	10,657,828
Internally restricted (Note 9)	9,446,460	5,633,242
	18,161,735	16,303,038
	$ 85,312,583	$ 61,270,238

On behalf of the Board:

Director

Director

The accompanying notes are an integral part of these financial statements.

Statement of Changes in Net Assets

For the year ended December 31, 2009

	Invested in Intangible and Capital Assets	Unrestricted	Internally Restricted	2009 Total	2008 Total
Balance, beginning of year (as previously stated)	$ 11,968	$ 11,823,150	$ 5,633,242	$ 17,468,360	$ 12,882,380
Accounting changes (Note 18)	-	(1,165,322)	-	(1,165,322)	(827,962)
Balance, beginning of year (as restated)	11,968	10,657,828	5,633,242	16,303,038	12,054,418
Excess (deficiency) of revenue over expenses for the year	(9,078)	2,572,640	(704,865)	1,858,697	4,248,620
Investment in captial assets	52,663	(52,663)	-	-	-
Investment in Enterprise Information System (Note 9)	917,164	-	(917,164)	-	-
Plastic Market Development Fund (Note 9)	-	(2,935,247)	2,935,247	-	-
Sustaining Fund (Note 9)	-	(2,500,000)	2,500,000	-	-
Balance, end of year	$ 972,717	$ 7,742,558	$ 9,446,460	$ 18,161,735	$ 16,303,038

The accompanying notes are an integral part of these financial statements.

Statement of Operations

For the year ended December 31	Actual	Budget	2009 Variance	2008 Actual
Revenue				
Blue Box program steward fees	$ 80,635,640	$ 76,304,900	$ 4,330,740	$ 70,695,695
Less: Deferred revenue (Note 8)	(9,245,514)	(13,744,700)	4,499,186	(9,758,381)
	71,390,126	62,560,200	8,829,926	60,937,314
MHSW program steward fees	25,876,102	28,355,620	(2,479,518)	11,695,939
Investment income (Note 10)	1,662,932	1,212,500	450,432	2,264,193
	98,929,160	92,128,320	6,800,840	74,897,446
Expenses (Note 16)				
Blue Box Program				
Direct material costs	60,161,829	60,178,900	(17,071)	51,743,385
Research and development (Note 11)	5,983,797	1,300,000	4,683,797	3,627,717
Enterprise Information System	704,865	-	704,865	-
	66,850,491	61,478,900	5,371,591	55,371,102
MHSW Program				
Direct material costs	19,763,452	23,457,620	(3,694,168)	8,522,553
Shared promotion and education	1,908,700	1,500,000	408,700	299,000
Program development and start-up (Note 12)	1,351,771	625,000	726,771	2,357,005
	23,023,923	25,582,620	(2,558,697)	11,178,558
Common costs				
Program management	5,933,636	5,888,200	45,436	3,484,121
Waste Diversion Ontario and Ministy of Environment charges (Note 4)	1,262,413	1,743,200	(480,787)	615,045
	7,196,049	7,631,400	(435,351)	4,099,166
Total expenses	97,070,463	94,692,920	2,377,543	70,648,826
Excess (deficiency) of revenue over expenses for the year	$ 1,858,697	$ (2,564,600)	$ 4,423,297	$ 4,248,620

The accompanying notes are an integral part of these financial statements.

Statement of Cash Flows

For the year ended December 31	2009	2008
Cash provided by (used in)		
Operating activities		
Excess of revenue over expenses for the year	**$ 1,858,697**	$ 4,248,620
Adjustments to reconcile excess of revenue over expenses for the year to cash provided by operating activities		
Amortization of capital assets	**9,078**	2,112
Non-cash component of investment income	**(453,239)**	(874,557)
Changes in non-cash working capital balances		
Accounts receivable	**(847,949)**	(4,060,751)
Prepaid expenses and deposits	**(312,219)**	(16,126)
Accounts payable and accrued liabilities	**6,529,897**	5,168,009
Deferred revenue	**9,245,514**	9,758,382
	16,029,779	14,225,689
Investing activities		
Purchase of investments	**(47,500,000)**	(27,500,000)
Proceeds of investments	**18,112,763**	19,255,242
Purchase of capital assets	**(52,663)**	(14,080)
Purchase of intangible asset	**(917,164)**	-
Payment from (advances to) Waste Diversion Ontario	**681,762**	(16,762)
	(29,675,302)	(8,275,600)
Increase (decrease) in cash during the year	**(13,645,523)**	5,950,089
Cash, beginning of year	**7,237,286**	1,287,197
Cash (bank overdraft), end of year	**$ (6,408,237)**	$ 7,237,286

The accompanying notes are an integral part of these financial statements.

Notes to Financial Statements

December 31, 2009

1. Business Organization and Operations

Stewardship Ontario ("Organization") is an Industry Funding Organization created under Section 24 of the Waste Diversion Act, 2002 ("WDA") to operate waste diversion programs on behalf of Waste Diversion Ontario ("WDO").

On February 14, 2003, the Organization was formally incorporated in the Province of Ontario as a corporation without share capital. The first Blue Box Program Plan was approved by the Minister of the Environment in December 2003 and the program commenced operations in February 2004.

On December 11, 2006, the Minister of the Environment prescribed Municipal Hazardous or Special Waste ("MHSW") as a designated waste under the WDA. The Minister required that WDO develop a waste diversion program for MHSW, and the Organization to be the Industry Funding Organization ("IFO"). The Minister of the Environment approved the Phase 1 Program Plan in November 2007. The MHSW officially commenced operations July 1, 2008. In a letter dated September 22, 2009, the Minister of the Environment approved the commencement of the Consolidated MHSW plan, which will add 14 new material categories to the program, to commence July 1, 2010.

2. Significant Accounting Policies

The following is a summary of significant accounting policies of the Organization:

(a) Revenue Recognition

Steward fees are recognized as revenue as stewards register with the Organization and report tonnages.

The Organization follows the deferral method of accounting for revenues collected and administered on behalf of the Effectiveness & Efficiency Fund ("E&E"), the Continuous Improvement Fund ("CIF") and the Glass Market Development Fund. Amounts received for these programs are recognized as revenue when the related expenses are incurred.

(b) Investments

The Organization designates its investments as held-for-trading and they are stated at their fair value. Realized and unrealized gains (losses) are recorded in the statement of operations. The Organization accounts for its investments on a settlement date basis and transaction costs associated with investment activities are included in the statement of operations.

Fair value of investments are determined as follows:

Bonds, fixed income securities and short term deposit receipts are valued at year-end quoted market prices.

December 31, 2009

2. Significant Accounting Policies (Continued)

(c) Capital Assets

Capital assets are recorded at cost less accumulated amortization and are amortized on the following basis:

Computers	-	30% declining balance
Furniture and fixtures	-	20% declining balance

(d) Intangible Assets

Intangible assets with finite lives are recorded at cost and are amortized over their useful life, beginning once the asset is ready for use.

(e) Financial Instruments

The Organization accounts for cash (bank overdraft) as held-for-trading and is carried at fair value. Accounts receivable is classified as loans and receivables and are initially measured at fair value and carried at amortized cost. Accounts payable and accrued liabilities are classified as other financial liabilities and are initially measured at fair value and carried at amortized cost.

The carrying values of cash (bank overdraft), accounts receivable and accounts payable and accrued liabilities approximate their fair values due to the relative short periods to maturity of these items or because they are receivable or payable on demand.

(f) Use of Estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and reported amounts of revenues and expenses during the reporting period. Actual results could differ from management's best estimates as additional information becomes available in the future.

(g) New Accounting Pronouncements

There are no new recent accounting pronouncements that have been issued but not yet effective that would have a significant impact on the financial statements of the Organization.

3. Investments

Investments consist of money market pooled funds, guaranteed investment certificates and bonds that bear interest at 0.35% to 6.00% (2008 - 3.75% to 6.00%), and mature between March 2010 and March 2020. Included in investments is $254,858 (2008 - $258,599) of cash held with broker. The increase in market value of investments for the year ended December 31, 2009 amounted to $495,025 (2008 - $644,302) which is included in investment income (Note 10).

4. Waste Diversion Ontario

The WDO caused the Organization to be created under the WDA to act as an IFO for waste diversion programs (Note 1). During 2004 and 2005, the Organization advanced funds to WDO. All amounts owing from WDO were repaid in full in June 2009.

Under the Blue Box and MHSW program agreements, the Organization is required to collect fees to cover both program operations and the program specific and common costs of WDO that relate to program oversight. The total payments for WDO expenses during the year were $1,108,844 (2008 - $880,640 ($265,595 of which is included in Program development and start-up)).

5. Capital Assets

			2009	2008
	Cost	**Accumulated Amortization**	**Net Book Value**	Net Book Value
Computer equipment	**$ 38,436**	**$ 8,359**	**$ 30,077**	$ 11,968
Furniture and fixtures	**28,307**	**2,831**	**25,476**	-
	$ 66,743	**$ 11,190**	**$ 55,553**	$ 11,968

6. Intangible Asset

The intangible asset represents an Enterprise Information System that is currently under development (Note 9).

7. Bank Overdraft

	2009	2008
Cash in bank	**$ 9,745,694**	$ 20,807,928
Outstanding cheques	**(16,153,931)**	(13,570,642)
	$ (6,408,237)	$ 7,237,286

December 31, 2009

8. Deferred Revenue

	2009	2008
Blue Box Program		
Glass Market Development Fund	**$ 666,175**	$ 1,602,915
Effectiveness & Efficiency Fund	**4,818,903**	6,863,550
Continuous Improvement Fund	**25,091,110**	12,864,209
	$ 30,576,188	$ 21,330,674

Deferred revenue in the Blue Box Program represents unspent resources that are externally restricted for various programs.

Each year, the Organization is directed to hold back a portion of the municipal blue box obligation for the Continuous Improvement Fund (CIF), see Note 13(b) for further details around the fund. The CIF is managed by external parties and directs the Organization to release funds as requested.

Commitments related to the above deferred revenues have been explained in Note 13.

9. Internally Restricted Net Assets

	2009	2008
Sustaining Fund	**$ 3,500,000**	$ 3,500,000
Plastic Market Development Fund	**5,068,489**	2,133,242
Enterprise Information System Fund	**877,971**	-
	$ 9,446,460	$ 5,633,242

During 2006, the directors recognized the need for a Sustaining Fund to enable the Organization to carry out its non-profit activities and satisfy all of its obligations for a period of one year and therefore internally restricted $3,500,000 for this purpose. During the year, the directors reallocated $2,500,000 of this balance to the Enterprise Information System Fund. As at December 31, 2009 the directors reallocated $2,500,000 from unrestricted net assets to the Sustaining Fund to replenish the Fund.

During 2007, the directors authorized the establishment of a fund in 2008 for investment in infrastructure for plastic markets and activities for their development. An initial investment of $2,400,000 was funded by Blue Box stewards of plastic packaging. During the year, the directors internally restricted an additional $3,000,000 and there were expenditures from the fund of $64,753. A further commitment was approved by the director of $3,000,000 per year in each of 2011 and 2012 to plastic market development.

During 2009, as noted above, the directors reallocated $2,500,000 to cover the expected costs of a new information system. Development began in September, with the launch of the system expected in the first quarter of 2010. Costs have been incurred to date amounting to $1,884,182, of which $917,164 are included in intangible assets, $262,153 are included in prepaid expenses, and $704,865 are expensed in 2009.

10. Investment Income

	2009	2008
Interest income	**$ 1,349,092**	$ 1,639,106
Gain (loss) on sale of investments	**(60,166)**	75,834
	1,288,926	1,714,940
Adjustment to market value	**495,025**	644,302
Investment expenses	**(121,019)**	(95,049)
	$ 1,662,932	$ 2,264,193

11. Research and Development

	2009	2008
Market Development - Glass	**$ 936,740**	$ 444,617
Market Development - Plastics	**64,752**	266,758
Continuous Improvement Fund Projects	**2,937,658**	255,130
Effectiveness & Efficiency Fund Projects	**2,044,647**	2,661,212
	$ 5,983,797	$ 3,627,717

12. Program Development and Start-Up

In 2009, the Organization spent $1,351,771 to develop and begin to implement the Consolidated MHSW Program Plan. This program will begin operations in July 2010.

In 2008, the Organization spent $2,357,005 to develop the MHSW Phase 1 Program Plan which began operations on July 1, 2008.

13. Commitments

(a) Effectiveness & Efficiency Fund ("E&E Fund")

The intent of the E&E Fund was to provide support to Ontario municipalities to help reduce the cost of their Blue Box recycling programs and increase the tonnes recovered. This initiative was part of the Blue Box Program Plan that was created as a result of Ontario's Waste Diversion Act, 2002, and an integral part of the plan to help Ontario achieve the Minister's recycling target of 60% diversion of Blue Box waste by 2008 and to maximize efficiency of individual Blue Box municipal recycling programs and of the system as a whole. As of January 1, 2008, the fund was collapsed and there still remains funds that are unspent. The E&E Fund contributions were fully committed by the end of 2008 and through 2009 approved E&E Fund projects continued to be implemented. In 2009, the Municipal Industry Program Committee ("MIPC") agreed that unspent E&E Fund Contributions would be transferred to the Continuous Improvement Fund as projects were completed. At December 31, 2009 the E&E Fund balance is $4,818,903, of which it is anticipated that approximately $1,228,000 will be unspent and transferred once all approved projects are completed.

December 31, 2009

13. Commitments (Continued)

(b) Continuous Improvement Fund ("CIF")

The CIF provides grants and loans to municipalities to execute projects that will increase the efficiency of municipal Blue Box recycling and help boost system effectiveness. The CIF started in 2008 and has a three year mandate to direct funding support to projects that will identify and implement best practices, examine and test emerging technologies, employ innovative solutions to increase Blue Box materials marketed, and promote gains in cost-effectiveness that can be implemented province wide. Twenty percent of the annual municipal obligation funded by the Organization's stewards is passed along to the CIF each year and any unpaid amounts are reflected in Deferred Revenue (Note 8). As of December 31, 2009, approved project funding and related commitments for the CIF totalled approximately $14,850,000 of the total fund balance of $25,091,110.

(c) Unical Inc. Agreement

In September 2007, the Organization entered into a financial assistance agreement with Unical Inc. (“Unical”) by way of a grant in the total amount of up to $1,750,000 to assist Unical in the purchase of equipment for a mixed broken glass processing plant to be located in Brampton, Ontario. As at December 31, 2009, the full $1,750,000 (2008 - $875,000) of the obligation had been incurred and disbursed to Unical. The Organization also committed to pay up to an additional $200,000 to Unical if contracts were executed to take mixed glass from other municipal recycling programs on the same terms as the founding municipalities. As of December 31, 2009, Unical had not met these terms, but was actively negotiating with municipalities.

(d) Glass Market Development Fund

The Blue Box Program Plan committed to pay $2,901,525 to a Glass Market Development Fund from contributions from stewards of glass. As of December 31, 2009, the Organization has paid $2,235,350 and has fully committed the remaining balance for glass market development projects.

(e) Lease Agreements

In December 2008, the Organization entered into a lease agreement commencing March 2009. In November 2009, the Organization entered into an additional lease agreement commencing March 2010. Under the terms of the agreements, the Organization is committed to pay basic rent plus operating costs over the next five years approximately as follows:

2010	$ 182,400
2011	279,800
2012	280,700
2013	283,700
2014	254,200

14. Financial Instrument Risk Exposure and Management

Management has established policies and procedures to manage risks related to financial instruments, with the objective of minimizing any adverse effects on financial performance. Unless otherwise noted, it is management's opinion that the Organization is not exposed to significant interest rate, currency or credit risks arising from its financial instruments. A brief description of management's assessments of these risks is as follows:

(a) General Objectives, Policies and Processes:

The Board and management are responsible for the determination of the Organization's risk management objectives and policies and designing operating processes that ensure the effective implementation of the objectives and policies. In general, the Organization measures and monitors risk through preparation and review of monthly reports by management.

(b) Credit Risk:

Financial instruments potentially exposed to credit risk include cash, investments and accounts receivable. Management considers its exposure to credit risk over cash to be remote as the Organization holds cash deposits at a major Canadian bank. Management considers its exposure to credit risk over investments to be remote as the Organization invests in federal or provincial government securities, securities backed by any chartered bank, or guaranteed investment certificates. Accounts receivable are not significantly concentrated, monitored regularly for collections, and the carrying amount of accounts receivable represents the maximum credit risk exposure.

From time to time, materials could be the subject of an Industry Stewardship Plan ("ISP"), which is allowable under the Waste Diversion Act, 2002. Successful ISP's may call into question the Organization's ability to collect monies related to accumulated material deficits or those spent on plan development, shared promotion and education and other common costs.

(c) Interest Rate Risk:

The Organization is exposed to interest rate risk from fluctuations in interest rates depending on prevailing rates at renewal of investments. To manage this exposure, the Organization invests mainly in fixed income securities (federal or provincial government securities, guaranteed investment certificates or securities backed by any chartered bank), and cash and/or money market investments as determined by the Organization’s portfolio manager and in accordance with the Organization’s investment policy. To further manage interest rate risk, the Organization's investment portfolio has been laddered so that investment maturities are staggered over the long term. Although the overall philosophy of the investment fund is to hold securities until maturity, trading of the portfolio is allowed should the potential for a significant capital gain arise through the movement of interest rates. This investment approach ensures that the portfolio achieves stable and reliable rates of return with minimal interest rate reinvestment risk, and minimal transaction costs.

December 31, 2009

14. Financial Instrument Risk Exposure and Management (Continued)

(d) Liquidity Risk:

Liquidity risk is the risk that the Organization will not be able to meet its obligations as they come due. The two programs operated by the Organization carry substantially different risks in the ability to forecast and control expenses. Management has taken steps to ensure that the Blue Box and MHSW programs will have sufficient working capital available to meet obligations which it is unable to cover from program revenues in the short term.

15. Capital Management

The Organization defines its capital as the amounts included in its net assets balances.

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

Capital includes capital invested in capital and intangible assets, internally restricted net assets, and unrestricted net assets. The Organization is not subject to externally imposed capital requirements, but the Board has certain imposed restrictions on the use of its net assets as indicated in Note 9.

The Organization's capital management of the internally restricted reserve funds is described in Note 9.

16. Statement of Operations Presentation

The Organization is presenting the combined operations of both the Blue Box and MHSW programs for the first time in 2009. For that reason, the presentation of the Statement of Operations has been modified to include both programs. Listed below are descriptions of all expense line items on the Statement to allow for better interpretation by readers of the statements:

Direct Material Costs: Includes all Blue Box municipal transfers, all MHSW municipal and non-municipal post-collection costs, material specific promotion and education and material specific research and development.

Research and Development: Includes spending through E&E, CIF and Market Development Funds that have been set up through internally restricted net assets or deferred revenue (Note 8 and 11).

Enterprise Information System: Reflects expense to date on the Organization's new system. The Blue Box program will fund the system through to launch and will charge other programs for use of the system.

Shared Promotion and Education: Includes promotion and education costs that is not material specific. These costs have been incurred for the benefit of the MHSW program materials.

16. Statement of Operations Presentation (Continued)

Program Development and Start-Up: Includes spending on the Consolidated and Phase 1 MHSW Program Plan costs that were expensed during the year (Note 12). These costs are to be recovered through fees during the first 3 years of the program.

Program Management: Includes all third-party program management consulting contract costs and internal administrative costs including salaries and general administrative costs.

Waste Diversion Ontario and Ministry of Environment Charges: Includes contributions to the WDO and Ministry of Environment for program oversight and enforcement activity costs.

17. Comparative Figures

The comparative amounts presented in the financial statements have been restated to conform to the current year's presentation.

18. Accounting Changes

(a) Adoption of Accounting Policies

Effective January 1, 2009, the Organization adopted the following accounting standards, which did not have a significant effect on the financial statement presentation or disclosures:

Section 3064	- Goodwill and Intangible Assets
Section 4400	- Financial Statement Presentation by Not-for-Profit Organizations
Section 4600	- Disclosure of Related Party Transactions by Not-for-Profit Organizations
Section 4470	- Disclosure of Allocated Expenses by Not-for-Profit Organizations

Effective January 1, 2009, the Organization adopted Section 1000 - Financial Statement Concepts, which was amended to focus on the capitalization of costs that truly meet the definition of an asset and de-emphasizes the matching principle. The standard was adopted with retrospective application, resulting in the following adjustments to the prior year comparative figures:

Increase in revenue	$ 11,695,939
Increase in expenses	5,112,401
Decrease in opening net assets	827,962
Decrease in program development costs	3,913,498
Decrease in deferred revenue	9,669,074

(b) MHSW Expenses

During the year, the Organization was able to obtain the information necessary to verify the service costs related to the MHSW program. As a result, the comparative figures have been adjusted to reflect an increase of $6,495,688 in direct material costs, $299,000 in shared promotion and education, $80,248 in program management and $45,962 in Waste Diversion Ontario and Ministry of Environment charges relating to fiscal 2008.

Meet the Board

Commitment to Accountability and Best Practice

The Stewardship Ontario Board of Directors is committed to best practices in corporate governance. The Board (which currently consists of 15 industry directors) meets, on average, 6 times a year. Through its Finance, Audit & Risk, Governance, Compensation and Human Resources committees, the Board is actively involved in setting the strategic direction of the organization, monitoring its adherence to program plan deliverables and targets, exercising fiduciary oversight over Stewardship Ontario's finances, monitoring and responding to risk and overseeing management's performance in relation to these and other matters. In addition to monitoring the performance of the organization and its senior officers, the Board monitors its own performance annually and develops a plan to address governance-related performance issues.

The Board of Directors is committed to recruiting directors who:

- Have the necessary knowledge, experience, ability and commitment to fulfill their responsibilities
- Understand their purpose and their fiduciary obligations
- Understand what constitutes reasonable information for good governance and obtain it
- Understand the strategy and business of the organization they govern
- Are prepared to act to ensure that the organization's objectives are met and that performance criteria have been satisfied
- Fulfill their accountability by reporting on their own as well as the organization's effectiveness

Stewardship Ontario's Board will change in 2010 pursuant to amendments in its governance regulation (O. Reg. 33/08). The Board, to be elected at the Annual General Meeting, will consist of fourteen directors who are employees of steward companies or steward-related associations. The Board is elected by qualified voting organizations whose members are stewards. The new Board will then appoint an additional two independent directors. Given the growing importance of environmental Stewardship as a public policy objective, Stewardship Ontario is aware of the need for independent representation free of commercial ties to either Blue Box or MHSW wastes to provide an independent, external perspective to the governance of the Stewardship Ontario enterprise.

The Board also believes that governance disclosure is as critical as financial disclosure. Accordingly, the annual report to stakeholders (including the Ministry of the Environment, Waste Diversion Ontario and Stewards) includes a report on the Board's performance for the previous year, any issues identified as well as measures that will be undertaken to promote continuous improvement in governance and board-related matters.

Board Performance 2009

In 2009, the Board posted a number of significant achievements including:

- Recruitment of a new CEO and under the leadership of the Compensation Committee defined the chief executives mandate and established a performance management framework for the organization
- Development of a strategic plan
- Overhaul of governance practices including the introduction of a board charter, the adoption of a code of conduct for all directors and officers and job descriptions for all directors, the board chair and committee chairs
- Adoption of a board, committee, chair and director evaluation framework and assessment process
- Conducted a thorough assessment of the organization's primary risks and mandated the creation of a risk management plan
- Through its Finance, Audit and Risk Committee mandated the development of new systems to significantly enhance financial reporting, disclosure and internal controls
- Under the leadership of the Governance Committee, revamped the director recruitment process by defining best practice criteria and required skills for board membership

Our Board of Directors

Justin Sherwood
President
Refreshments Canada

Jill Carman
Director, Consumer & Technical Affairs
General Mills Canada Corporation

John Coyne
Vice President, General Counsel & Corporate Secretary
Unilever Canada

Rosanne Angotti
Chief Counsel
Kraft Canada Inc.

Diane Brisebois
President & CEO
Retail Council of Canada

Stephanie Jones
Vice President, Ontario
Canadian Restaurant and Foodservices Association

Tamara Burns
DVP Specialty Services, Leisure and Seasonal
Sears Canada Inc.

Ashley Dent
Vice President, Ontario
Canadian Council of Grocery Distributors

Vaughn Crofford
President
Canadian Hardware and Housewares Manufacturers Association

John Hinds
President & CEO
Canadian Newspaper Association

David Bois
Manager, Corporate, Health, Safety & Environment
Home Hardware Stores Ltd.

Shannon Coombs
President
Canadian Consumer Specialty Products Association

Jim Quick - Chair
President
Canadian Paint and Coatings Association

Mark Reed
Director of Marketing
Pennzoil-Quaker State Can Inc.

Kent Hatton
Brand Group Director
Energizer Canada Inc.

Thinking beyond the box

Stewardship Ontario

Stewardship Ontario wishes to acknowledge and thank the 2500 steward companies in Ontario who made financial contributions to the Blue Box and MHSW programs. Their support makes building sustainable communities possible in this province. We rely on contributions from the durable, consumable, retail and printed media industries to manage their end of life materials in an environmentally sustainable manner.

We would also like to thank the 300 Ontario municipalities for their important contributions under our shared responsibility partnership.

Annual Report design by Resonator.
The photography in this annual report depicts and represents the work of Stewardship Ontario's service providers.
Original photography for Stewardship Ontario by Robert Ciolfi