



Thinking
beyond
the box

Stewardship Ontario

WDO Filing on 2011 Program Performance

March 23, 2011

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Section 1

2011 Blue Box Program Performance

Blue Box Performance Report for 2011

WDA Requirements

Stewardship Ontario is the industry funding organization responsible for the Blue Box Program Plan, which was approved by the Minister on December 22, 2003 and commenced on February 1, 2004. For further information please see the “Blue Box Program Plan” at http://www.stewardshipontario.ca/bluebox/pdf/BBPP2003/BBPP_Feb28_Plan_Appendices.pdf and the “Guide to the Blue Box Program Plan” at <http://www.wdo.ca/files/domain4116/Guide%20to%20the%20BBPP%20for%202008%20fees%20Oct%2017%202007.pdf>

Stewardship Ontario undertook four formal consultations/information sessions in 2011:

- Recycling of Composite Paper Packaging (April 26 & 27th)
- Fee Setting Methodology (May 26th)
- Dialogue on the Blue Box Program (September 14th)
- Blue Box Session on 2012 Fees Schedule and Revised Rules (October 18th)

Relevant documentation (discussion papers, presentations, webcasts, etc.) can be found at <http://stewardshipontario.ca/bb-consultation-archives#2011>

Steward Registration, Reporting & Audit

Steward registration for the Blue Box program totalled 3,184. Of these, 91 were new steward registrations in 2011.

Total number of Blue Box stewards reporting in 2011 was 1,534 (versus 1,560 in 2010).

The total fees paid by the reporting Blue Box stewards in 2011 were \$92,661,177 (versus \$89,397,622 in 2010). These are the fees reported in Stewardship Ontario’s Statement of Operations. Note that steward reports for any prior year’s obligations are captured in the year that the reporting takes place.

2011 marked the start of Stewardship Ontario’s new audit framework (designed in cooperation with Deloitte and Touche, and building upon learnings from European EPR jurisdictions). 14 steward audits were undertaken under the new framework, representing 109% of the targeted tonnage (note that the new audit framework for selecting stewards for audit gives higher priority to improving overall confidence in the quality of reporting, rather than simply achieving a defined tonnage target). 10 audits representing 112% of targeted tonnage were undertaken in 2010.

As a result of learnings from the new process and other research and consultations with stewards, Stewardship Ontario introduced a number of changes to its reporting and payment rules in order to reduce financial risk to the program, provide Stewards more time to calculate and report data, and help reduce fee volatility.

Program Diversion Performance

The Blue Box program, operated by Ontario municipalities and funded in part by Stewardship Ontario via the Program Plan, achieved a material diversion rate of 67.6% (calendar year 2010).

Market Development

Stewardship Ontario has an obligation under the Blue Box Program Plan to “undertake investments in market development activities in partnership, where possible, with other parties (e.g. the private sector, municipal, provincial and federal interests)”.

Stewardship now has an established history in this regard, with the development of its market development program for mixed rigid plastics and film, and the success and expansion of Entropex of Sarnia Ontario and with EFS Plastics success and planned relocation and expansion.

Stewardship Ontario accelerated its market development efforts in 2011 to incorporate learnings from previous investments in Entropex and EFS, and the earlier (and unsuccessful) investment in Unical, in an effort to identify new opportunities to improve the recycling supply chain, protect its initial investment, and extract more value from recyclable materials in Ontario. Specifically, Stewardship Ontario:

- Issued a broad “Request for Expressions of Interest” in the spring of 2011, aimed at identifying new companies with innovative new approaches to recycling, and who had an interest in working with Stewardship Ontario. More than 60 submissions have been received to date and Stewardship Ontario is in active discussion with more than 15. See <http://www.stewardshipontario.ca/request-expressions-interest>
- Initiated a comprehensive review of recycling of fibre packaging (including composite paper packaging), and the potential to expand collection and recycling of these materials (in a manner similar to the success achieved for mixed rigid plastics).
- Expanded its involvement with EFS Plastics, providing a new loan on commercial terms enabling the relocation and further expansion of the EFS facility.
- Became a founding partner of Switchable Solutions Inc. to commercialize innovative new plastics recycling technology.

Stewardship Ontario’s efforts will continue to focus on the longer term, assessing risks to the marketability of all blue box materials with a view to anticipating threats to material markets, facilitating systemic strategies to mitigate those risks and/or identifying priorities for long-term market development.

As a result of research conducted by Stewardship Ontario in 2011 and discussions with new and existing Ontario recyclers, Stewardship Ontario believes Ontario has the potential, under the right conditions, to substantially increase the amount of blue box material that is converted into new manufacturing commodities in Ontario (rather than the material being shipped to the United States or overseas).

Section 2

2011 MHSW Program Performance

MHSW Performance Report for 2011

WDA Requirements

The MHSW Program is designed to collect consumer household hazardous and special waste material and manage these materials to their end-of-life (recycled or disposed of safely) in accordance with the Waste Diversion Act, 2002.

Program implementation occurred in two phases – Phase 1 launched in July 2008 with nine materials (Ontario Regulation 542/06; Amended O-Reg 28/08). For program plan information please see “Municipal Hazardous or Special Waste” at <http://www.wdo.ca/content/?path=page80+item125629>. The Consolidated MHSW program (Phase 2 ‘Special Waste’ and Phase 3 ‘Hazardous Waste’) launched July 1, 2010 bringing the total number of materials to 22. For program plan information please see “Consolidated Program Plan” at <http://www.wdo.ca/content/?path=page80+item126302>.

On July 20, 2010 the Minister of the Environment suspended Phases 2 and 3 (Ontario Regulation 298/10) for a 90-day review period due. The Minister subsequently announced on October 12, 2010: “The government is permanently ending the household waste program that took effect on July 1.” (Ontario Regulation 396/10). The Minister requested that Stewardship Ontario prepare a revised nine material Phase 1 MHSW program plan and continue to prudently manage Phases 2 and 3 MHSW during a transition period.

Stewardship Ontario undertook one formal consultation in 2011 on definitions for the Revised MHSW Program Plan. Six sessions were held between February 22nd and March 3rd, 2011 for the nine MHSW materials to present, discuss and obtain steward feedback on draft Phase 1 MHSW Program Plan definition revisions. Follow up documents from the consultations including a Q&A and the material definitions submitted to the WDO can be found at <http://www.stewardshipontario.ca/stewards/what-we-do/mhsw/orange-drop-mhsw-consultations>

Steward Registration

Total number of MHSW stewards reporting in 2011 was 507. In 2010, 496 MHSW stewards reported.

The total fees paid by the reporting MHSW stewards in 2011 were \$38,569,208. In 2010, \$39,426,587 was paid by reporting MHSW stewards. The fee is as stated in Stewardship Ontario’s Statement of Operations; note that steward reports for any prior year’s obligations are captured in the year that the reporting takes place.

Report on MHSW steward audits: in 2011, 12 audits to review steward data collection, reporting systems and methodologies were conducted which represented 167% of the tonnage target for the materials audited. A further 17 audits specific to oil filters and oil containers occurred in 2011 through the Used Oil Association; this represented 9.7% of the tonnage target for the materials audited.

Vendor Registration

Commercial service providers registered for MHSW material management:

	Year	Transporters	Processors
Vendor Registrations	2010	47	32
	2011	48	33
New Vendor Audits	2011	-	3
New Lab Pack Audits	2011	Paints & Coatings, Solvents, Pressurized Containers, Fertilizers, Pesticides	

Accessibility

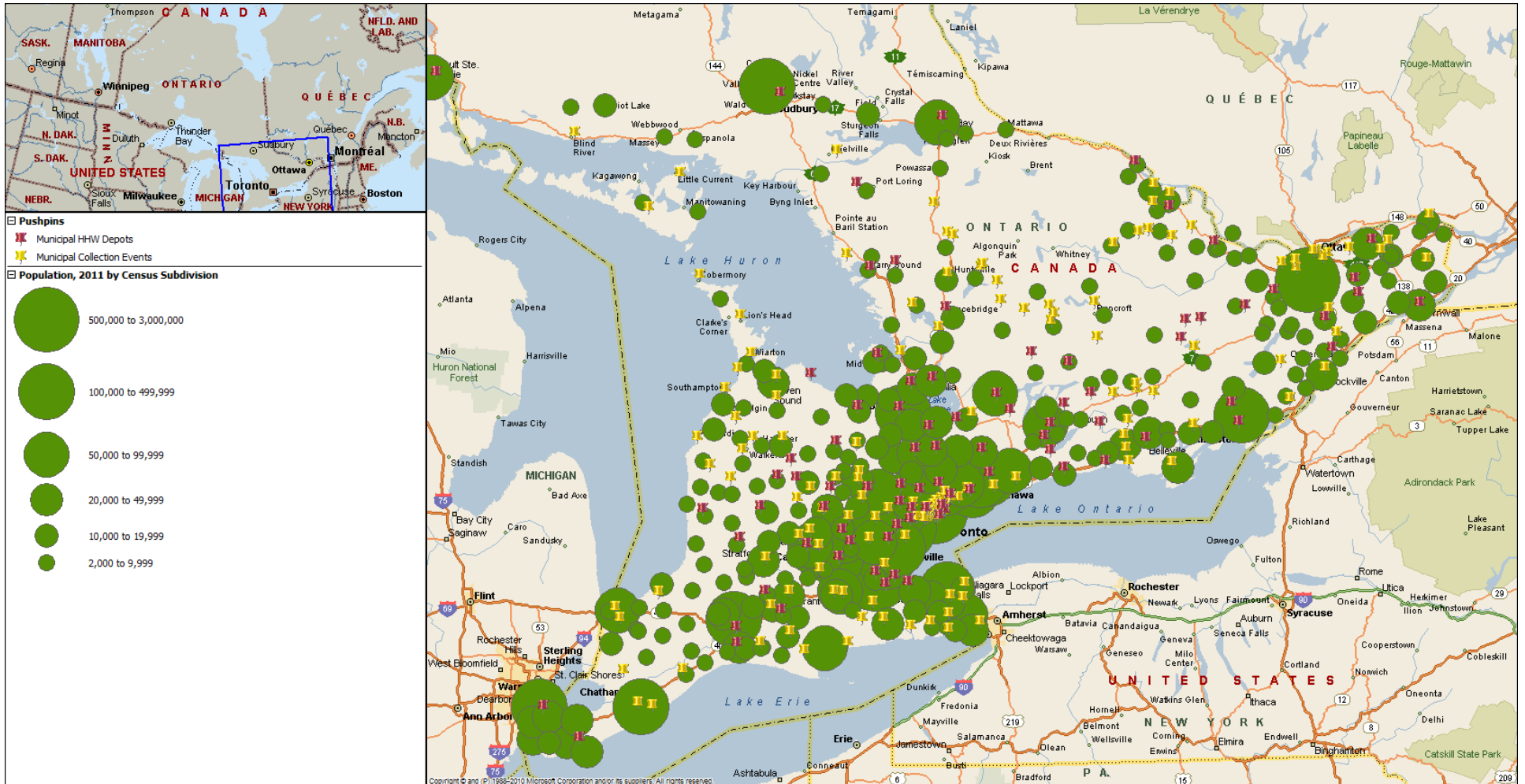
The following chart details consumer accessibility by collector type for MHSW in 2010:

Channel - Activity	2011 Target	2011 Actual	Notes
Municipal – Depot	110	87	6 municipal depots joined MHSW in 2011
Municipal – Events	306	304	Municipalities control events due to Ph 2/3
Automotive – Commercial Sites	8,500	10,000+	Automotive incentive rates changed in 2011
Automotive – Do It Yourself (DIY) Sites	200	429	Goal 150 more; actual 158 new sites in '11
Return-to-Retail	400	307	Goal to stabilize program in 2011 achieved
Battery Incentive Program (BIP)	-	1,151	BIP program launched February 1, 2011
Provincial Parks Program	108	91	Formalized program in 2011 with 400 cages
Total Sites	9,624	12,369	+ 28.5% to target and +11% to last year

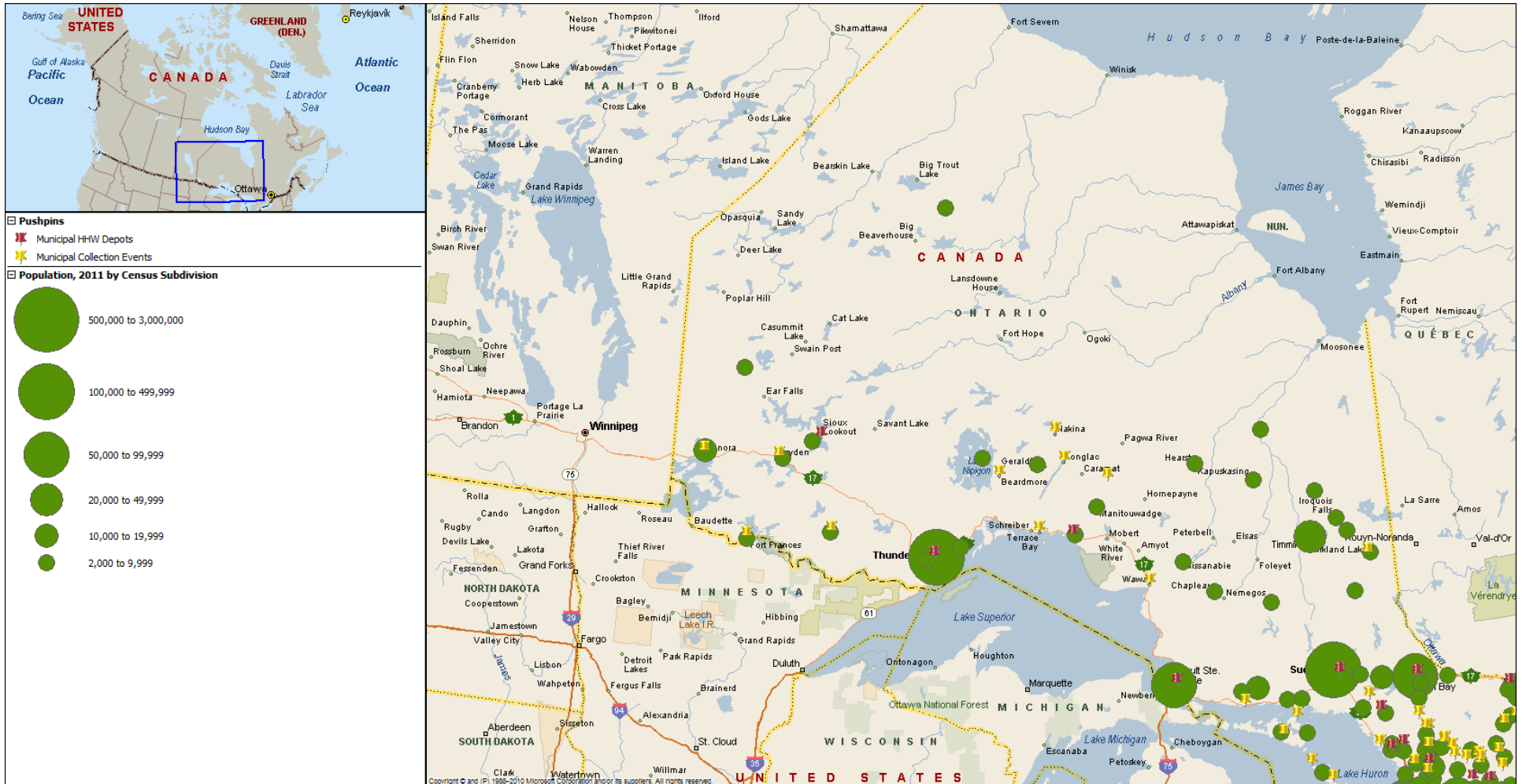
Accessibility Map

Population of Ontario mapped to show municipal collection access by depot and event by population density for 2010.

Municipal Accessibility - Southern Ontario



Municipal Accessibility - Northern Ontario



Program Performance against Targets

2011 Tonnes Collected

The 2011 year is being reported in two halves (Q1/Q2 and Q3/Q4) due to the launch of the CMHSW program on July 1, 2010 which triggered new collection targets for the nine Phase 1 MHSW materials. The source data for collection comes from Table 5.9, years 1 & 2, CMHSW Plan, pages 43-44.

Material Category	2011 Period	Available for Collection	Collection Target Rate	Target Amount	Actual Collection Amount	Actual Collection Rate	Variance (Tonnes)
Antifreeze	Q1/Q2	7,405	25%	1,851	1,277	17%	-574
	Q3/Q4	5,571	35%	1,950	1,367	25%	-583
Fertilizers	Q1/Q2	35	n/a	n/a	34	97%	n/a
	Q3/Q4	68	n/a	n/a	44	65%	n/a
Oil Containers	Q1/Q2	1,732	32%	554	1,210	70%	656
	Q3/Q4	1,793	37%	663	1,345	75%	682
Oil Filters	Q1/Q2	6,847	65%	4,451	4,145	61%	-306
	Q3/Q4	6,767	70%	4,737	4,337	64%	-400
Paints & Coatings							
Paints & Coatings	Q1/Q2	4,096	37%	1,515	4,077	90%	2,360
Aerosols	Q1/Q2	412	49%	202			
Paints & Coatings	Q3/Q4	5,037	47%	2,367	5,472	96%	2,767
Aerosols	Q3/Q4	676	50%	338			
Pesticides	Q1/Q2	40	n/a	n/a	12	30%	n/a
	Q3/Q4	38	n/a	n/a	21	55%	n/a
Pressurized Containers							
Non-Refillable	Q1/Q2	270	14%	38	96	36%	58
	Q3/Q4	456	16%	73	224	49%	151
Refillable	Q1/Q2	740	83%	614	160	22%	-454
	Q3/Q4	467	88%	411	191	41%	-220
Single-Use Batteries	Q1/Q2	3,676	20%	735	417	11%	-318
	Q3/Q4	3,441	25%	860	595	17%	-265
Solvents	Q1/Q2	1,032	46%	475	471	46%	-4
	Q3/Q4	1,295	49%	635	640	49%	5

It is important to note that actual collection data supplied by our service providers, municipal and commercial, undergoes a rigorous validation process. At the time of this report, 100% of Q1 and Q2, 91% of Q3, and 85% of Q4 material management by municipalities has been validated. For Q3, 9% has been extrapolated and for Q4, 15% has been extrapolated and may be restated in future quarters. 100% of commercial reporting has been validated at the time of this report.

2011 Tonnes Diverted

The 2011 year is being reported in two halves (Q1/Q2 and Q3/Q4) due to the launch of the CMHSW program on July 1, 2010 which triggered new diversion targets for the nine Phase 1 MHSW materials. The source data for diversion comes from Table 5.12, years 1 & 2, CMHSW Plan, page 50.

Material Category	2011 Period	Available for Collection	Diversion Target Rate	Target Amount	Actual Diversion Amount	Actual Diversion Rate	Variance (Tonnes)
Antifreeze	Q1/Q2	7,405	25%	1,851	1,277	17%	-574
	Q3/Q4	5,571	35%	1,950	1,367	25%	-583
Fertilizers	Q1/Q2	35	n/a	n/a	n/a	n/a	n/a
	Q3/Q4	68	n/a	n/a	n/a	n/a	n/a
Oil Containers	Q1/Q2	1,732	32%	554	1,210	70%	656
	Q3/Q4	1,793	37%	663	1,345	75%	682
Oil Filters	Q1/Q2	6,847	65%	4,451	3,855	56%	-596
	Q3/Q4	6,767	70%	4,737	4,034	60%	-703
Paints & Coatings							
Paints & Coatings	Q1/Q2	4,096	22%	901	2,592	57%	1,518
Aerosols	Q1/Q2	412	42%	173			
Paints & Coatings	Q3/Q4	5,037	31%	1,562	3,889	68%	2,030
Aerosols	Q3/Q4	676	44%	297			
Pesticides	Q1/Q2	40	n/a	n/a	n/a	n/a	n/a
	Q3/Q4	38	n/a	n/a	n/a	n/a	n/a
Pressurized Containers							
Non-Refillable	Q1/Q2	270	14%	38	96	36%	58
	Q3/Q4	456	16%	73	224	49%	151
Refillable	Q1/Q2	740	83%	614	160	22%	-454
	Q3/Q4	467	88%	411	191	41%	-220
Single-Use Batteries	Q1/Q2	3,676	13%	467	358	10%	-109
	Q3/Q4	3,441	16%	543	512	15%	-31
Solvents	Q1/Q2	1,032	n/a	n/a	n/a	n/a	n/a
	Q3/Q4	1,295	n/a	n/a	n/a	n/a	n/a

The battery rates shown here are a factor of the Program Plan rates that include rechargeable batteries.

2010 Program Performance

Material Category	2010 Period	Available for Collection	Collection Target Rate	Target Amount	Actual Collection Amount	Actual Collection Rate	Variance (Tonnes)	Diversion Target Rate	Target Amount	Actual Diversion Amount	Actual Diverison Rate	Variance (Tonnes)
Antifreeze	Q1/Q2	4,944	35%	1,730	1,135	23%	-595	33%	1,631	1,135	23%	-496
	Q3/Q4	5,436	25%	1,359	1,141	21%	-218	25%	1,359	1,141	21%	-218
Fertilizers	Q1/Q2	MRS	34%	0	44	-	44	0%				
	Q3/Q4	49	n/a	n/a	61	125%	61	0%				
Oil Containers	Q1/Q2	1,824	35%	639	1,250	69%	612	28%	511	1,250	69%	740
	Q3/Q4	1,760	32%	563	1,347	77%	784	32%	563	1,347	77%	784
Oil Filters	Q1/Q2	6,698	74%	4,957	3,874	58%	-1,083	69%	4,622	3,603	54%	-1,019
	Q3/Q4	6,911	65%	4,492	4,084	59%	-408	65%	4,492	3,798	55%	-694
Paints & Coatings	Q1/Q2 Aerosols in	5,413	55%	2,977	5,577	103%	2,600	48%	2,598	4,122	76%	1,523
	Q3/Q4 Aerosols out	5,707	37%	2,324	5,588	90%	3,264	22%	1,438	4,135	67%	2,697
	Q3/Q4 Aerosols only	505	49%					42%				
Pesticides	Q1/Q2	MRS	52%	0	27	-	27	0%				
	Q3/Q4	43	n/a	n/a	29	67%	29	0%				
Pressurized Containers												
Non-Refillable	Q1/Q2	321	16%	51	55	17%	4	16%	51	42	13%	-9
	Q3/Q4	407	14%	57	308	76%	251	14%	57	308	76%	251
Refillable	Q1/Q2	882	94%	829	284	32%	-545	94%	829	233	26%	-596
	Q3/Q4	1,123	83%	932	283	25%	-649	83%	932	283	25%	-649
Single-Use Batteries	Q1/Q2	3,529	7%	247	318	9%	71	2%	71	274	8%	203
	Q3/Q4	4,152	20%	830	444	11%	-386	14%	581	382	9%	-199
Solvents	Q1/Q2	787	39%	307	128	16%	-179	0%				
	Q3/Q4	946	46%	435	504	53%	69	0%				

Promotion and Education

The C-MHSW Program Plan P&E objectives are:

- Inform citizens that a program to manage this category of waste exists
- Encourage participation in opportunities to dispose of designated MHSW appropriately
- Motivate consumers to adopt and maintain the desired environmental behaviour

For the launch of the C-MHSW program in July 2010, we developed the Orange Drop Brand with a comprehensive multi-media P&E program. We engaged in a strategic approach focused on educating consumers and promoting the program with a strong call to action. The P&E focus and intention was to identify the desired consumer behaviour and drive activity to meet collection targets.

In 2011 we maintained the brand name Orange Drop and built on many of the tactical elements developed in 2010 when the brand was first launched. The 2011 Promotion and Education campaign was designed to remain visible at high traffic events, in particular in and around the Greater Toronto Area and other large urban centres, with the intention of influencing behaviour and increasing collection.

Developing high recognition and recall of the Orange Drop brand will require a significant and prolonged P&E investment over several years. In 2011, budget pressures resulting from increasing material deficits due to our inability to raise fees meant that P&E activities needed to be dramatically scaled back from the previous year, and therefore did not include media such as outdoor, radio and television. P&E activities undertaken in 2011 were focussed on ensuring residents had basic knowledge of the program and the options available to them for disposing of their hazardous and special waste.

Despite working with a limited budget, Orange Drop was able to reach a large number of Ontario residents. Our strategy utilized many of the primary methods used by residents to learn about waste disposal, such as the municipal waste calendars and websites. Our calendar ad reached 1.869 million households.

We also selectively participated in consumer shows and local events with a family focus, such as our Toronto Harbourfront sponsorship and participation in community fairs, to promote the Orange Drop program during the key summer and fall seasons when the majority of collection activity occurs. Total attendance at these events was in excess of 575,000 people.

All P&E activities included the key call to action message “Visit www.makethedrop.ca to find your closest drop off location”. This website features a postal code search function in addition to information about the program and the need to ensure the safe disposal of hazardous and special waste.

Orange Drop team activities in support of the promotion and education mandate in 2011 were:

Activity Type	Number
Trade Shows	7
Fairs & Festivals	4
Family Activities/Events	16
School Presentations	17
Municipal Event Support	6
Steward Event Support	2
Total	52
Facebook "Likes"	646
Twitter "Followers"	183

Section 3

2011 Audited Financial Statements

Stewardship Ontario

Financial Statements

For the year ended December 31, 2011

Stewardship Ontario

Financial Statements

For the year ended December 31, 2011

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Independent Auditor's Report

To the Members of Stewardship Ontario

We have audited the accompanying financial statements of Stewardship Ontario, which comprise the balance sheet as at December 31, 2011, and the statements of changes in net assets, operations and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, these financial statements present fairly, in all material respects, the financial position of Stewardship Ontario as at December 31, 2011 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

March 19, 2012
Toronto, Ontario

**Stewardship Ontario
Balance Sheet**

December 31 2011 2010

Assets

Current

Cash (Note 6)	\$ 3,119,759	\$ -
Investments (Note 3)	89,883,770	106,272,427
Accounts receivable (Note 9)	21,745,736	4,731,215
Prepaid expenses and deposits	260,817	287,568

115,010,082 111,291,210

Capital and intangible assets (Note 4)

Long-term investment (Note 5) 1,656,525 2,116,166

500,000 -

\$117,166,607 **\$113,407,376**

Liabilities and Net Assets

Current

Bank overdraft (Note 6)	\$ -	\$ 16,399,699
Accounts payable and accrued liabilities	58,766,468	43,340,692
Deferred revenue (Note 7)	38,691,827	42,056,362

97,458,295 101,796,753


Net Assets


Invested in capital and intangible assets	1,656,525	2,116,166
Unrestricted	8,983,018	2,713,165
Internally restricted (Note 8)	9,068,769	6,781,292

19,708,312 11,610,623

\$117,166,607 **\$113,407,376**

On behalf of the Board:

 Director

 Director

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

Stewardship Ontario Statement of Changes in Net Assets

For the year ended December 31, 2011

	Invested in Capital and Intangible Assets	Unrestricted	Internally Restricted	2011 Total	2010 Total
Balance, beginning of year	\$ 2,116,166	\$ 2,713,165	\$ 6,781,292	\$ 11,610,623	\$ 18,161,735
Excess (deficiency) of revenue over expenses for the year	(478,122)	9,288,334	(712,523)	8,097,689	(6,551,112)
Investment in capital assets	18,481	(18,481)	-	-	-
Plastic Market Development Fund (Note 8)	-	(3,000,000)	3,000,000	-	-
Balance, end of year	\$ 1,656,525	\$ 8,983,018	\$ 9,068,769	\$ 19,708,312	\$ 11,610,623

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

Stewardship Ontario Statement of Operations

For the year ended December 31	Actual	Budget	2011 Variance	2010 Actual
Revenue				
Blue Box program steward fees	\$ 92,661,176	\$ 97,509,525	\$ (4,848,349)	\$ 89,397,622
MHSW program steward fees (Phase I)	38,569,208	42,698,087	(4,128,879)	39,426,587
MHSW program fees (Phase II/III) (Note 9)	26,711,342	20,862,716	5,848,626	-
Investment income (Note 10)	1,506,113	1,320,000	186,113	916,490
	<u>159,447,839</u>	<u>162,390,328</u>	<u>(2,942,489)</u>	<u>129,740,699</u>
Expenses				
Blue Box Program				
Municipal Transfer Payments Continuous Improvement Fund (Note 12(c))	81,105,778	81,121,037	(15,259)	65,639,117
Research and development	886,598	3,620,358	(2,733,760)	1,936,989
Enterprise Information System	434,984	250,000	184,984	1,124,283
	<u>91,440,809</u>	<u>94,004,883</u>	<u>(2,564,074)</u>	<u>85,110,487</u>
MHSW Program				
Direct material costs (Phase I)	36,656,019	33,264,054	3,391,965	30,806,807
Direct material costs (Phase II/III)	13,875,263	16,344,940	(2,469,677)	6,573,773
Shared promotion and education Program development and start-up	384,421	2,606,741	(2,222,320)	3,637,916
	165,938	1,200,000	(1,034,062)	1,709,381
	<u>51,081,641</u>	<u>53,415,735</u>	<u>(2,334,094)</u>	<u>42,727,877</u>
Common costs				
Program management Waste Diversion Ontario and Ministry of Environment charges (Note 11)	7,594,102	9,214,118	(1,620,016)	6,999,055
	1,233,598	1,125,000	108,598	1,454,392
	<u>8,827,700</u>	<u>10,339,118</u>	<u>(1,511,418)</u>	<u>8,453,447</u>
Total expenses	<u>151,350,150</u>	<u>157,759,736</u>	<u>(6,409,586)</u>	<u>136,291,811</u>
Excess (deficiency) of revenue over expenses for the year	<u>\$ 8,097,689</u>	<u>\$ 4,630,592</u>	<u>\$ 3,467,097</u>	<u>\$ (6,551,112)</u>

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

**Stewardship Ontario
Statement of Cash Flows**

For the year ended December 31	2011	2010
Cash provided by (used in)		
Operating activities		
Excess (deficiency) of revenue over expenses for the year	\$ 8,097,689	\$ (6,551,112)
Adjustments to reconcile excess (deficiency) of revenue over expenses for the year to cash provided by operating activities		
Amortization of capital and intangible assets	478,122	249,622
Non-cash component of investment income	99,070	141,881
Changes in non-cash working capital balances		
Accounts receivable	(17,014,521)	2,981,418
Prepaid expenses and deposits	26,751	53,544
Accounts payable and accrued liabilities	15,425,776	13,174,269
Deferred revenue	(3,364,535)	11,480,174
	<u>3,748,352</u>	<u>21,529,796</u>
Investing activities		
Purchase of investments	(34,643,231)	(64,000,000)
Proceeds from investments	50,932,818	33,871,813
Purchase of capital and intangible assets	(18,481)	(1,393,071)
Purchase of long term investment	(500,000)	-
	<u>15,771,106</u>	<u>(31,521,258)</u>
Increase (decrease) in cash during the year	19,519,458	(9,991,462)
Bank overdraft, beginning of year	(16,399,699)	(6,408,237)
Cash (bank overdraft), end of year	\$ 3,119,759	\$ (16,399,699)

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

Stewardship Ontario Notes to Financial Statements

December 31, 2011

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 added 14 new material categories to the program, to commence July 1, 2010. On July 20, 2010, the Minister of the Environment, through Ontario Regulation 298/10, halted and under Ontario Regulation 396/10, put an end to the Organization's ability to collect steward fees against the new materials and definitions under the Consolidated MHSW plan. Material collection and the associated obligation to pay for these costs continued to exist through 2010 and 2011 for all materials under the Consolidated MHSW program. The Minister of the Environment will reimburse the Organization for all costs deemed appropriate for the management of the materials introduced in the expanded Consolidated MHSW program.

2. Significant Accounting Policies

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

(a) Revenue Recognition

Steward fees for stewards registered with the Organization are recognized as revenue based on reported tonnages. Steward reported tonnages for prior years' obligations and revenues resulting from compliance and enforcement activities are recognized when the amount can be reasonably estimated and collection is reasonably assured. MHSW program fees (Phase II/III) are recognized when costs are incurred and collection is reasonably assured.

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.

Stewardship Ontario Notes to Financial Statements

December 31, 2011

2. Significant Accounting Policies (Continued)

(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.

(c) Capital Assets

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

Computer equipment	-	3 years straight line
Furniture and fixtures	-	5 years straight line

(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. The Enterprise Information System is being amortized on a straight line basis over 5 years.

(e) Long-term Investment

The Organization classifies its long-term investment as available-for-sale. The long-term investment is carried at cost (net of any impairments), as fair value cannot be reliably measured due to the lack of an active trading market.

(f) Financial Instruments

The Organization accounts for cash and bank overdraft as held-for-trading and are 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.

Stewardship Ontario Notes to Financial Statements

December 31, 2011

2. Significant Accounting Policies (Continued)

(g) 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. Significant estimates include estimates of unreported tonnages and collectability of the related steward fees and accrued post collection costs. Actual results could differ from management's best estimates as additional information becomes available in the future.

3. Investments

Investments consist of money market pooled funds, guaranteed investment certificates and bonds that bear interest at 1.05% to 6.00% (2010 - 1.10% to 6.00%), and mature between October 2012 and April 2015. Included in investments is \$278,445 (2010 - \$542,050) of cash held with broker. The decrease in market value of investments for the year ended December 31, 2011 amounted to \$424,018 (2010 - \$400,940) which is included in investment income (Note 10).

4. Capital and Intangible Assets

	2011		2010	
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Capital assets				
Computer equipment	\$ 115,159	\$ 59,295	\$ 55,864	\$ 78,086
Furniture and fixtures	265,158	75,097	190,061	187,476
	380,317	134,392	245,925	265,562
Intangible asset				
Enterprise Information System	2,015,143	604,543	1,410,600	1,850,604
	\$ 2,395,460	\$ 738,935	\$ 1,656,525	\$ 2,116,166

**Stewardship Ontario
Notes to Financial Statements**

December 31, 2011

5. Longterm Investment

During the year, the Organization purchased 544,818 common shares of Switchable Solutions Inc. ("SSI"), representing a 12.64% ownership of SSI at December 31, 2011. SSI is in the process of commercializing a breakthrough Green solvent-based platform technology that enables efficient, effective and environmentally-friendly applications, including recycling of difficult to recycle post-consumer plastics.

6. Cash (Bank Overdraft)

	2011	2010
Cash in bank	\$ 24,024,578	\$ 571,354
Outstanding cheques	(20,904,819)	(16,971,053)
	\$ 3,119,759	\$ (16,399,699)

7. Deferred Revenue

	2011	2010
Blue Box Program		
Glass Market Development Fund	\$ 666,017	\$ 666,017
Effectiveness & Efficiency Fund	983,090	2,278,877
Continuous Improvement Fund	37,042,720	39,111,468
	\$ 38,691,827	\$ 42,056,362

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 12(c) for further details around the fund. The CIF is managed by external parties and directs the Organization to release funds as required.

Commitments related to the above deferred revenues have been explained in Note 12.

Stewardship Ontario Notes to Financial Statements

December 31, 2011

8. Internally Restricted Net Assets

	2011	2010
Sustaining Fund	\$ 3,500,000	\$ 3,500,000
Plastic Market Development Fund	5,568,769	3,281,292
	\$ 9,068,769	\$ 6,781,292

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 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 2009 and 2011, the directors internally restricted an additional \$3,000,000 in each of these years. A commitment was approved by the directors of \$3,000,000 for 2012 to be allocated to plastic market development. During the year, \$712,523 (2010 – \$1,787,197) was spent on plastics market development activities. Commitments related to the fund are explained in Note 12(d).

9. MHSW Program Fees (Phase II/III)

	2011	2010
Plan development and start-up costs	\$ 3,657,098	\$ -
2010 program operating costs	7,411,272	-
2011 program operating costs	15,642,972	-
	\$ 26,711,342	\$ -

During the year, the Minister of the Environment partially reimbursed costs incurred by the Organization in relation to plan development and start-up for the Consolidated MHSW Program of approximately \$3,657,000 and for a portion of the 2010 operating costs related to the materials covered by the expansion of the Consolidated MHSW Program of approximately \$4,816,000. Subsequent to year end, the Organization entered into an agreement with the Minister of the Environment for the reimbursement of costs related to operating Phase II and III of the Consolidated MHSW program. Included in accounts receivable is \$18,238,725 relating to this agreement.

10. Investment Income

	2011	2010
Interest income	\$ 2,280,659	\$ 1,505,048
Loss on sale of investments	(191,657)	(13,072)
	2,089,002	1,491,976
Adjustment to fair value	(424,018)	(400,940)
Investment expenses	(158,871)	(174,546)
	\$ 1,506,113	\$ 916,490

Stewardship Ontario Notes to Financial Statements

December 31, 2011

11. 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). 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 approximately \$1,234,000 (2010 - \$1,344,000). In 2011, no amounts were included in MHSW Program development and start-up from the WDO (2010 - \$161,037).

12. Commitments

(a) 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, 2011, the Organization has paid \$2,235,508 and intends to fully commit the remaining balance for glass market development projects.

(b) 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, 2011, the E&E Fund balance is \$983,090, of which it is anticipated that approximately \$21,926 will be unspent and transferred once all approved projects are completed.

(c) 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 with a three year mandate to direct 20% of the Organization's municipal funding obligation to support 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. Ten percent (twenty percent prior to 2011) 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 7). As of December 31, 2011, approved project funding and related commitments for the CIF totaled approximately \$31,300,000 of the total fund balance of \$37,042,720.

Stewardship Ontario Notes to Financial Statements

December 31, 2011

12. Commitments (Continued)

(d) Plastic Market Development Fund

In February 2010, the Organization along with WDO, entered into an agreement with EFS-Plastics Inc. ("EFS") to assist EFS to purchase additional equipment for its Elmira film and mixed rigid plastics processing plant to increase annual processed throughput. The combined commitment by WDO and the Organization was \$1,118,750. To date, approximately \$292,000 has been paid.

In October 2011, the Organization approved a \$1.5 million convertible loan to enable the expansion and relocation of the EFS facility, upon satisfaction of specific conditions within the agreement. As of December 31, 2011, these conditions had not yet been met, but it is expected that these conditions will be met in 2012 resulting in the Organization providing the agreed funding to EFS.

(e) Realty 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:

2012	\$	280,700
2013		283,700
2014		254,200
2015		235,700
2016		236,300

13. 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.

Stewardship Ontario Notes to Financial Statements

December 31, 2011

13. Financial Instrument Risk Exposure and Management (Continued)

(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.

(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. The introduction of Ontario Regulation 11/12 Amending Ontario Regulation 542/06 that changes the fee setting methodology for the MHSW Program allows the Organization to charge actual costs to stewards and significantly reduces risks related to timing of receipt and payments for the MHSW Program (Note 17).

(e) Market Risk:

The Organization has a long-term investment which is subject to market value risk. The Organization records the long-term investment at cost (net of any impairments), as fair value cannot be reliably measured due to the lack of an active trading market.

Stewardship Ontario Notes to Financial Statements

December 31, 2011

14. 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 fulfil 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 8.

The Organization's capital management of the internally restricted reserve funds is described in Note 8.

15. Comparative Figures

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

16. Contingent Liability

The Organization has been named as a defendant in a legal action. The outcome of the claim is not determinable and therefore an estimate of the Organization's liability, if any, cannot be made. However, management believes, on the basis of its examination and consideration of this matter, that the action will not result in the payment of an amount which would have a material effect on the financial statements and therefore no provision for the claim has been made in these financial statements. Losses, if any, will be accounted for in the period they are determined.

17. Subsequent Event

On February 9, 2012, the Minister of the Environment exercised his powers under section 42(4) of the Waste Diversion Act to issue a regulation prescribing how the Organization is to finance the MHSW program (Phase I). The Regulation effectively amends the fee-setting methodology in the Consolidated MHSW Program Plan (Phase I) which allows the Organization to set fees on a per unit/volume basis. When this Regulation takes effect on April 1, 2012, the Organization will be required to apply a market share methodology to recover both ongoing operating costs and deficits that have accumulated over the course of the program. The Organization will no longer be able to invoice stewards on the basis of unit/volume-based fees and will no longer be able to publish a fee schedule. The new cost recovery methodology is designed to result in an economically sustainable program.



Thinking
beyond
the box

Stewardship Ontario

Report Close