



Thinking
beyond
the box

Stewardship Ontario

2018 Annual Report

Change is coming. We are ready.

CHANGE



About Stewardship Ontario

Stewardship Ontario is a not-for-profit organization, funded and governed by businesses, working to operate efficient programs that divert more waste from Ontario's landfills and waterways.

Obligated businesses meet their regulatory requirements by registering with the program, reporting the quantities of designated materials supplied to consumers and paying fees.

With our partners, we promote environmental sustainability through reducing waste, reclaiming valuable materials for reuse, and recycling. We operate Ontario's waste diversion programs for packaging and printed paper (Blue Box) and Municipal Hazardous or Special Waste (MHSW), known to consumers as Orange Drop. We also invest in market development activities to improve the management of materials captured under the programs.

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2018 Highlights

Stewardship Ontario, our partners and stakeholders are actively preparing for a host of changes brought on by the *Waste-Free Ontario Act, 2016*, and the province's intention to move to a circular economy. We consulted interested parties on our proposal to amend the Blue Box Program Plan in both 2017 and 2018, and found significant support for the transition to full producer responsibility. Stewardship Ontario also began to develop an MHSW Wind Up Plan, as directed by the government. We are committed to transparent communication and meaningful consultations with stakeholders before submitting this plan.

Blue Box Program

RECYCLING DATA FROM 2017



Orange Drop Program

ALL DATA FROM 2018



Message to Stakeholders



John D. Coyne, 2018 Board Chair
Vice President External Affairs and Sustainability, Unilever Canada Inc.

Our organization spent 2018 engaged in thoughtful planning and consultations with our stakeholders over the significant program changes that have become part of our mandate. At the same time we worked to maintain existing programs and service levels until key decisions on future operating models are made.

The Strategy for a Waste-Free Ontario marked the beginning of a momentous shift from a linear economy to one in which resources are repeatedly used in closed loops - thereby eliminating waste. The 2017 strategy called for existing waste diversion programs, including Stewardship Ontario's Blue Box and Municipal Hazardous or Special Waste (MHSW) programs, to undergo a transition process consisting of two eventual steps:

1. Wind up existing waste diversion programs and industry funding organizations under the *Waste Diversion Transition Act*, and
2. Create regulations that make individual producers fully responsible for the materials designated under these programs.

Challenges with current Blue Box Model

The current shared responsibility model for Ontario's Blue Box Program is inadequate. It fosters system fragmentation by leaving operational decisions to individual municipalities. Across Ontario there are hundreds of different recycling programs, meaning decisions are localized and disconnected. This

fragmentation creates confusion for consumers; businesses have no way of influencing local programs and therefore do not fully engage on packaging design choices; and essential economies of scale cannot be achieved to support a circular economy because uncertainty deters investment in new processes and systems.

Transitioning the Blue Box Program to full producer responsibility (see sidebar) as provided for in Ontario's *Waste-Free Ontario Act, 2016*, is urgently needed. Delays only foster more uncertainty, which in turn discourages much-needed investment in recycling infrastructure. This puts pressure on both environmental performance and system costs. Moreover, while changes to the composition of packaging and printed paper in recent years have reduced the weight of materials supplied by stewards, the overall fees paid by stewards have increased significantly.

Stewardship Ontario supports efforts to increase opportunities for Ontarians to participate in waste reduction and to make producers responsible for the waste generated from their products and packaging. We are also focused on helping to reduce contamination in the Blue Box system. Rising contamination levels drive up program costs and reduce the quality of recovered materials sent to recycling end markets -- our 2018 promotion and education campaign once again took aim at this issue.

Blue Box Program Amendments

Stewardship Ontario and the Resource Productivity and Recovery Authority (RPRA) were directed in 2017 to prepare a proposal to amend the Blue Box Program Plan to support transition from the current shared responsibility model to full producer responsibility.

Extensive consultations were held in 2017 and early 2018 with the steward community, First Nations

communities, Ontario's municipal representatives, the waste management industry and environmental non-government organizations. While stakeholders expressed significant support for the transition to full producer responsibility, the consultations revealed that additional policy development decisions must take place before the transition process can begin. As a result, Stewardship Ontario did not submit its proposal for an amended Blue Box Program Plan to RPRA in 2018. Instead, Stewardship Ontario remained engaged in discussions with its stakeholders throughout the year to discuss options for moving forward.

Many stewards appreciate the importance and relevance of the Blue Box Program to Ontario consumers and taxpayers and they are keenly aware of the challenges facing municipally operated recycling systems as a result of a number of market forces, not the least of which is uncertainty over the timing of the transition to full producer responsibility.

MHSW Wind Up

Significant changes are also pending for the MHSW Program, known to consumers as Orange Drop.

In April 2018, the Ontario government directed Stewardship Ontario to wind up the MHSW Program by December 31, 2020, at which time MHSW materials will be managed in accordance with an individual producer responsibility framework. The wind up plan is due to be submitted to RPRA in June 2019.

In December 2018, the Minister of the Environment, Conservation and Parks amended the timelines for the wind up of single-use batteries to cease operation on June 30, 2020, to allow for coordination with waste electrical and electronic equipment. Programs for other MHSW materials will continue to cease operation on December 31, 2020.

Stewardship Ontario is committed to operating the MHSW Program without disruption until the wind-up date. Updates and consultation materials will be posted on our website as they become available.

FULL PRODUCER RESPONSIBILITY BUILDS ON SHARED RESPONSIBILITY

In Ontario, producers currently have shared financial responsibility for the Blue Box Program, paying 50% of net municipal costs for collection and processing. The term "extended producer responsibility" or EPR was introduced in the 1990s to make producers responsible for the life-cycle of their products and packaging. With recent changes to legislation introduced by the Ontario government, including greater emphasis on a circular economy, the program is evolving from shared to "full" producer responsibility meaning that producers of paper and packaging materials will have complete operational and financial responsibility for achieving performance obligations.

Progress on plastics

In last year's report, we highlighted the enormous global problems associated with growth in plastic waste. These include millions of tonnes of plastics leaking into the world's rivers and oceans each year; 95% of plastic packaging material lost to the economy after only one use; and a highly fragmented market, lacking standards and coordination, that has prompted a proliferation of plastic materials, formats, labelling, collection schemes, and sorting and reprocessing systems. Collectively, we are harming our waterways and aquatic life, and preventing the development of effective markets.

Stewardship Ontario is keeping abreast of worldwide efforts to reduce plastic waste through many of our stewards and our service provider Canadian Stewardship Services Alliance, which have committed to support the New Plastics Economy Global Commitment, led by the Ellen MacArthur Foundation



in collaboration with UN Environment. The Global Commitment establishes a network of businesses, governments and other organizations that will pursue targets to:

- Eliminate problematic or unnecessary plastic packaging and move from single-use to reuse packaging models.
- Innovate to ensure 100% of plastic packaging can be easily and safely reused, recycled, or composted by 2025.
- Circulate the plastic produced, by significantly increasing the amounts of plastics reused or recycled and made into new packaging or products.

Although there are significant challenges to overcome in resource recovery, we believe that the transformational change Ontario has initiated is a critical part of the solution – closing the loops and keeping plastic packaging out of the natural environment.

Along with our municipal, First Nations communities and steward partners, we are committed to working with the Ontario government to deliver on the promises laid out in its draft Made-in-Ontario Environment Plan. Together, we will continue to focus our energy on making positive changes that promote environmental sustainability.

In closing, I would like to express deep appreciation for the ongoing support and work of our board members, our stewards, Stewardship Ontario employees and other stakeholders in 2018.

A handwritten signature in black ink, appearing to read "John D. Coyle".

Blue Box Program

The Blue Box Program is Ontario's curbside recycling program for diverting packaging and printed paper from the residential waste stream. It collects glass, metal, paper and plastic materials – in various formats and an ever-evolving mix.

Program costs are shared equally between Ontario municipalities and industry stewards. These are the nearly 1,900 registered businesses that supply packaging and printed paper to Ontario residents.

Our stewards include brand owners (companies who hold registered trademarks associated with the designated packaging or printed materials), first importers (Ontario companies, mostly retailers, that are the first to take ownership, possession or control of products into Ontario) and franchisors (the responsible stewards for all designated printed materials and packaging that is supplied by the entire Ontario franchise system).

Stewards contributed \$127.9 million to the Blue Box Program last year. The current shared-cost model is expected to evolve to one of full producer responsibility over the coming years.

In 2018, there were 245 communities that participated in the Blue Box Program. These communities manage, and in some cases directly deliver, the collection, sorting and marketing of materials and educate residents about allowable materials.

Partnerships

Stewardship Ontario works with various partners to adjust to changing regulatory and market factors, including the Continuous Improvement Fund (CIF), individual municipalities, private-sector companies, industry associations and research entities.

The CIF provides funding, technical support and training to aid municipalities and other stakeholders in identifying and developing best practices as well as technological and market-based improvements. It is funded by steward payments to municipalities, with the amount varying each year. Municipalities and their private-sector partners can apply for financial support for projects that benefit a local Blue Box Program or the provincial system overall.

Through the CIF, Stewardship Ontario supports municipalities that are making efforts to improve both the quantity and quality of Blue Box material captured, while dealing with the processing challenges and rising costs associated with the changing packaging stream, including the ongoing problem of contamination.

Here are three examples that highlight a commitment to continuous improvement.

RESIDENTIAL WASTE COMPOSITION STUDIES

Stewardship Ontario cooperates with the CIF to undertake annual residential waste composition studies in municipalities across the province. These studies provide key material generation data as an input into the steward fee-setting process.

Since 2015, Stewardship Ontario has worked with the CIF to share the costs of conducting the residential waste composition studies. This cooperation has provided for a more robust data set for use in the steward fee-setting process and has provided additional information for the CIF to develop a provincial average waste composition database for use by municipalities.

The residential waste composition study is a four-season (full-year) examination of residential garbage and recycling streams, both single-family and multi-residential, focused on measuring designated packaging and printed paper (PPP) materials. The data obtained through the studies provide detailed information on the generation of specific PPP materials in the residential waste stream. The data demonstrates the changes that are occurring in residential PPP. In general, the volume of printed paper (e.g. newspapers and magazines) and some packaging (such as glass) is decreasing, while various plastic packaging types (such as PET plastics) are increasing. The study also found that multi-residential households generate up to 25% less material than single-family detached households.

To date, 27 municipalities (about 10% of those in the Blue Box Program) have partnered with Stewardship Ontario and the CIF in executing the waste composition studies. The municipalities receive the data obtained from the studies for their use to support improvements to program performance and service to residents. More than half of the municipalities that have participated have leveraged the work being undertaken for the program to obtain additional waste composition information.

COOPERATIVE CONTAINER PROCUREMENT

For the last 10 years, CIF has coordinated a cooperative container procurement program for all Ontario municipalities and First Nations communities. The program operates with the CIF issuing requests for tenders for blue boxes, recycling carts, and reusable bags. The rates secured are then extended to all provincial Blue Box Program operators so they can purchase high-quality containers at competitive rates. This initiative advances three objectives:

1. **Achieve overall system cost savings:** Provide an opportunity to work through a single cooperative tender process, in lieu of having individual participants undertake their own procurement efforts and incur related expenses.
2. **Leverage economies of scale:** Improve buying power by combining the container needs of numerous programs to attract multiple bids and ensure the best unit price is secured.
3. **Encourage 'green' procurement and market development:** Prioritize the selection of containers featuring resins derived from plastics collected through Ontario's residential Blue Box Program.

Since 2015, more than 70 municipalities have purchased over 424,000 blue boxes, 13,000 recycling carts and 75,000 reusable bags. Total savings are estimated at \$1 million. For smaller municipalities, the Blue Box prices available through this program are significantly lower than amounts paid in previous years. In addition to cost-savings through bulk purchase prices, the single competitive procurement provides administrative efficiency for participating municipalities.

TRANSITION DEPOT COLLECTION TO FRONT-END LOADING BINS

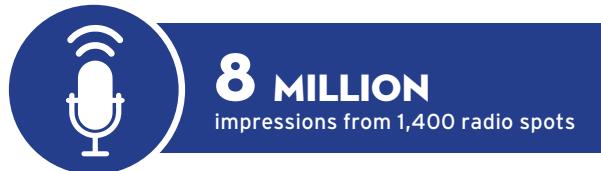
This project was completed in 2017 to improve the financial and operational efficiency of Hastings Highlands recycling depot operations. The municipality, located between Bancroft and Algonquin Park, replaced its inventory of uncompactable, two-compartment roll-off containers with an eight cubic yard front-end bin system.

The use of front-end bins substantially reduced the number of trips to move recyclable materials from the depots to the material recovery facility, from 381 trips to 166 trips. As a result of this program change, the municipality saved more than \$60,000 in the first year following implementation.

Blue Box Promotion and Education

2018 QUICK FACTS ON CONTAMINATION REDUCTION CAMPAIGN

Radio Ads:



Billboard Ads:



Digital/social media ads:



Rising levels of contamination have been driving up program costs and reducing the quality of recovered materials sent to recycling end markets. In support of municipalities' education efforts, Stewardship Ontario re-ran its successful 2017 "Break the Cycle" contamination reduction campaign. This targeted three specific areas of contamination in resident recycling bins: organics, problematic materials and containers with remaining contents. The 2018 P&E campaign had a heavier focus on multi-family residential buildings, which tend to have higher contamination levels than curbside and depot-based programs.

The campaign ran from July to September on billboards, by direct mail to select communities, digital and social media ads and radio ads in major markets in southern, central and eastern Ontario. The campaign generated a total of 22.3 million impressions.



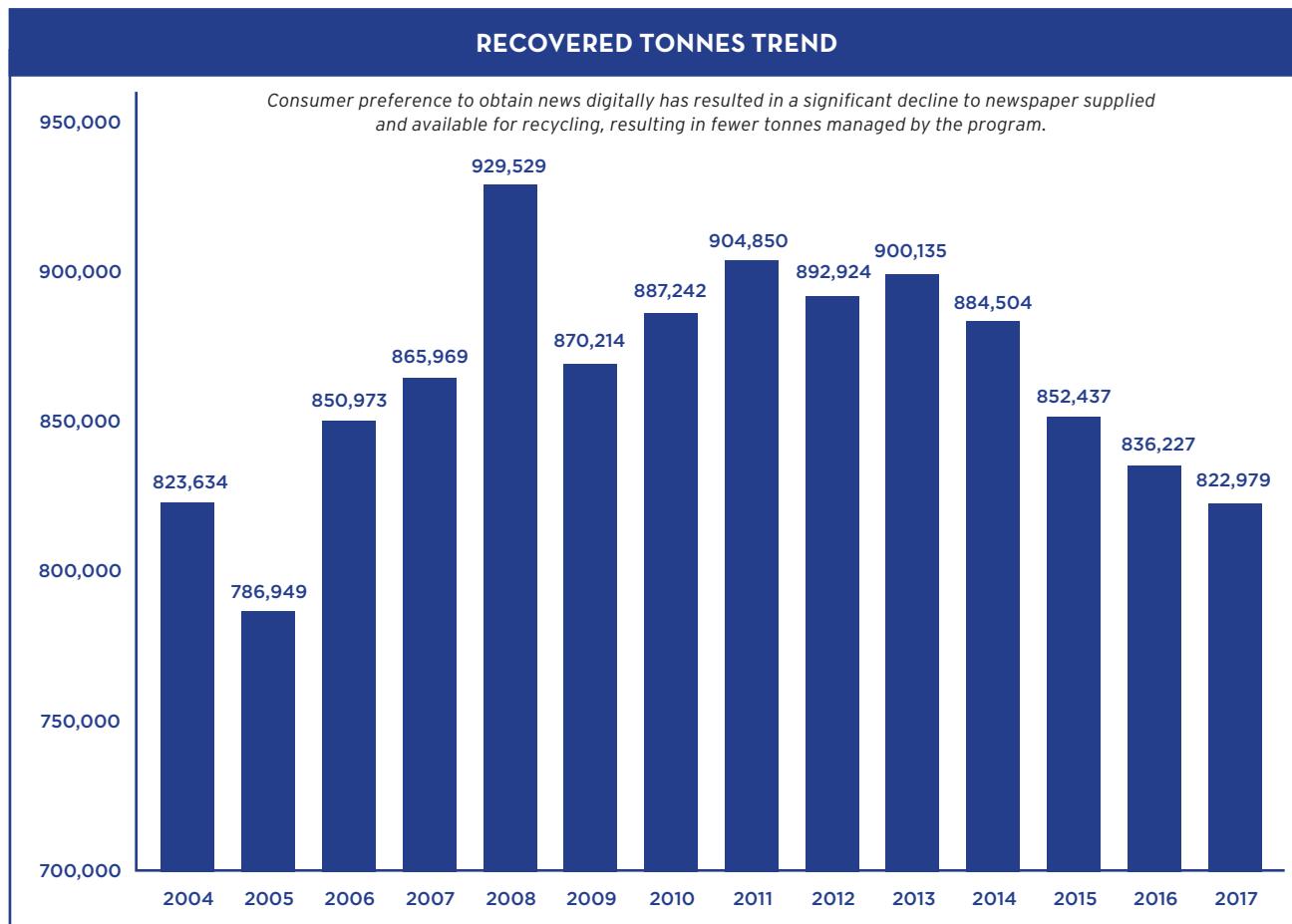


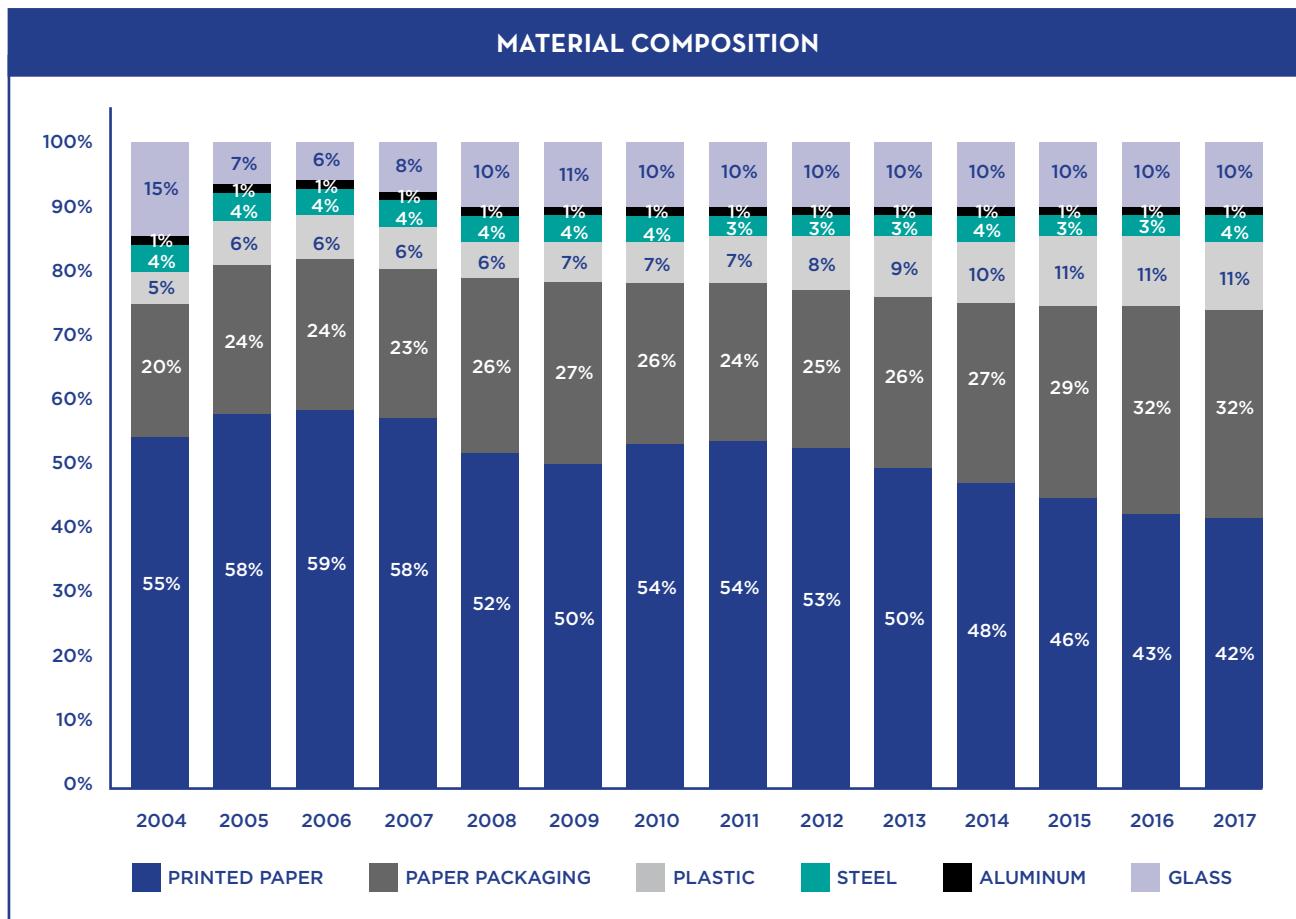
Stewardship Ontario's ad recall research indicated that 38% of Ontario residents recalled hearing or seeing an ad about 'breaking the cycle,' mostly from radio advertising.

Between November 2018 and mid-January 2019, Stewardship Ontario ran the holiday version of the campaign via billboards in London, Ottawa, Kingston, Barrie, Peel, York and Durham regions, and as online ads targeting residents across the province. The holiday campaign generated 16.2 million impressions.

Stewardship Ontario also engages Ontario residents on social media, providing useful recycling tips and reminders via our Twitter account. In 2018, our Twitter posts generated nearly 111,000 impressions, up 59% from the previous year.

Blue Box Program Performance





The Blue Box Program continues to exceed the 60% government-mandated target, although there was a slight year-over-year decrease in the general recycling rate to 61.3 % from 62.4%. The decline continues a downward trend in the rate and recycled tonnes that can be attributed to the “evolving tonne” in which heavier materials such as printed paper and glass with higher recovery rates are being replaced by various types of lighter plastics. As we lose quantities of materials with high recovery rates, the overall performance of the system declines. While the current fragmented system is unable to effectively respond to the evolving tonne, full producer responsibility would standardize what is collected in the province and stimulate investments in sorting and processing capabilities.

Generated tonnes, an estimate of the total quantity of residential PPP available, were stable compared to the previous year. Recycled kilograms per capita decreased in 2017, reflecting reduced tonnes and an increase in the population. Access to recycling programs remains at very high levels.

RECYCLING AND ACCESSIBILITY IN ONTARIO

RECYCLING PERFORMANCE			
METRIC	2017	2016	YOY VARIANCE %
Recycled Tonnes	822,979	836,227	-1.6%
Generated Tonnes	1,342,017	1,340,947	0.1%
Recycling Rate	61.3%	62.4%	-1.7%
Provincial Recycling Target	60.0%	60.0%	---
Population Serviced by Program	12,962,740	12,814,578	1.2%
Recycled kg per Capita	63.49	65.26	-2.7%

ACCESSIBILITY PERFORMANCE			
METRIC	2017	2016	YOY VARIANCE %
# of Households Serviced	5,237,905	5,174,930	1.2%
% of Households with Access to Program	94.4%	94.6%	-0.2%

Blue Box Financial Performance

The overall net cost of the Blue Box recycling system decreased by 3.4% or \$8.7 million in 2017, with gross costs increases more than offset by increased commodity revenue. The funding obligation that stewards must pay to municipalities for the Blue Box Program increased by 1% from the previous year. As the obligation uses a three-year rolling average for commodity revenue, the effects of significant commodity market declines and resultant revenue decreases caused by the China ban in 2018 will first begin to be a factor in the 2020 obligation calculation.

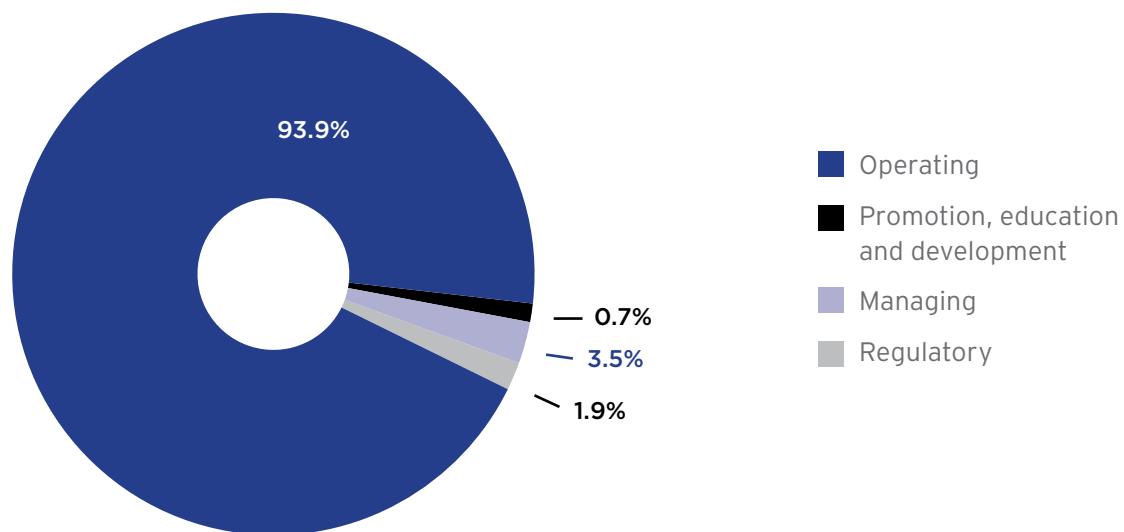
The net cost per tonne and per capita also declined. Net cost includes supply chain costs, commodity revenues, promotion and education costs, regulatory costs, market development and program management costs.

PROGRAM COST PERFORMANCE

METRIC	2017	2016	YOY VARIANCE %
Recycled Tonnes	822,979	836,227	-1.6%
Net Cost	\$249,809,925	\$258,540,366	-3.4%
Net Cost per Tonne	\$304	\$309	-1.8%
Net Cost per Capita	\$19	\$20	-4.5%
Promotion & Education Cost per Capita	\$0.56	\$0.64	-12.4%

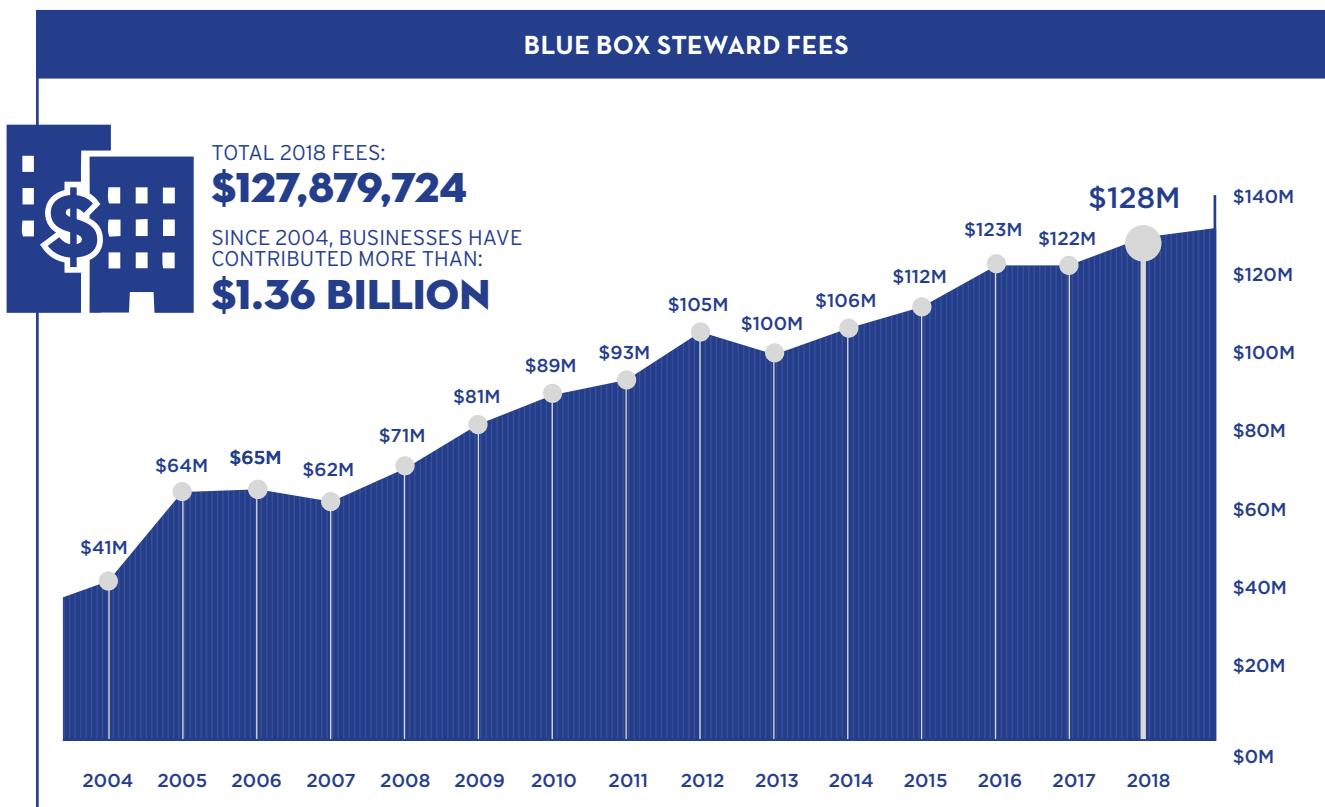
PROGRAM EXPENSES

This graphic shows a breakdown of Stewardship Ontario expenses in 2018, which are based on the payment obligation to municipalities as determined by RPRA plus the cost of managing the program.



REVENUE FROM STEWARD FEES

In 2018, revenue from Blue Box steward fees totalled \$127.9 million, an increase of 4.8% (\$6 million) from 2017. The increase reflects the increase in the funding obligation along with increased regulatory expenses.



MHSW (Orange Drop) Program

The MHSW Program, known to consumers as Orange Drop, is designed to collect household hazardous or special waste and manage these materials at their end of life, ensuring they are recycled or disposed of safely. In contrast with the Blue Box Program, the MHSW Program operates under full producer responsibility whereby industry stewards are fully responsible for both the costs and operations of the MHSW Program.

As stewards have launched new industry stewardship plans (ISPs) for management of their MHSW materials in recent years, Stewardship Ontario has experienced notable declines in material volumes, steward fees and expenses associated with the MHSW Program. Stewardship Ontario oversees end-of-life support for single-use batteries and pressurized containers that previously held propane, oxygen or other gases. Other materials, such as automotive materials, are managed by ISPs that continue to use the Orange Drop brand.

Wind Up Plan

In April 2018, the Minister of the Environment and Climate Change issued direction to Stewardship Ontario to wind up the MHSW Program by December 31, 2020. Upon wind up, materials collected under the MHSW Program will be managed according to an individual producer responsibility framework under the Resource Recovery and Circular Economy Act, 2016.

In December 2018, the Minister of the Environment, Conservation and Parks amended the timelines for the wind up of single-use batteries. The waste diversion program for single-use batteries will now cease operation on June 30, 2020, to allow for coordination with waste electrical and electronic equipment. Programs for other MHSW materials will continue to cease operation on December 31, 2020.

Stewardship Ontario is developing an MHSW Wind-Up Plan, to be submitted to RPRA by June 30, 2019. Throughout this process, Stewardship Ontario is committed to transparent communication and meaningful consultations with its stakeholders. The Wind Up Plan will support competition, prevent conflict of interest, demonstrate fairness, maintain and improve program performance, and result in no disruption for stakeholders.

SUMMARY OF PROGRAM PERFORMANCE

In 2018, the MHSW Program provided end-of-life management for single-use batteries and pressurized containers. The exit of many stewards to ISPs has shifted the collection and recycling obligation to other organizations and away from Stewardship Ontario and as a result the aggregate collection of all materials in 2018 declined to 7,423 tonnes from 11,412 tonnes in 2017.

YEAR	AGGREGATE COLLECTION TARGET (TONNES)	ACTUAL COLLECTION (TONNES)	ACTUAL TO TARGET (%)
2018	5,835	7,423	127
2017	9,330	11,412	122
2016	16,326	20,230	124
2015	27,972	24,385	87
2014	24,625	28,958	118
2013	21,615	28,280	131

PROGRAM ACCESSIBILITY

Consumers can drop off specific materials at a variety of municipal, automotive, retail and other locations in Ontario. Accessibility to Orange Drop locations and MHSW material collection events, excluding automotive materials sites (which were transferred to Automotive Materials Stewardship in 2017), was comparable to the prior year, at almost 5,900 sites and events.

CHANNEL - ACTIVITY	2018	2017	2016
Municipal - Depot	88	88	89
Municipal - Events	312	305	313
Automotive - Commercial Sites *	N/A	12,000+	12,000+
Automotive - Do It Yourself (DIY) Sites *	N/A	985	985
Return-to-Retail	30	30	30
Battery Incentive Program	5,340	5,340	5,340
Provincial Parks Program	102	102	102
Total	5,872	18,850+	18,859+

*Accessibility to automotive materials sites is reported by Automotive Materials Stewardship.

Orange Drop Promotion and Education

The promotion and education activities to support the Orange Drop (MHSW) Program are designed to increase awareness, drive behavioural change, and support collection channels (such as depots, events, return to retail and incentive partners) to achieve collection and diversion targets.

The Orange Drop website continued to provide its locator tool for residents to easily search drop off locations and municipal events by postal code.

2018 QUICK FACTS

- More than 66,000 visits to Orange Drop's resident-facing website, makethedrop.com, up 19% from 56,000 visits in 2017
- Social media posts generated over 495 million impressions throughout 2018 (up 4,375% from 2017), had 3,066 engagements and over 5,100 link clicks
- Billboard and online/social media ads about the five Orange Drop materials generated 13.3 million impressions

In June 2018, Stewardship Ontario re-ran the 2017 campaign on digital platforms to remind consumers that propane cylinders don't belong in their blue box or regular garbage and should be brought to a depot for safe handling. The campaign generated 1.6 million impressions and website traffic jumped 40% compared to the same time period in 2017.



In July 2018, Stewardship Ontario also participated in a campaign to promote the proper disposal of the five Orange Drop materials across Ontario. The creative was featured on 13 billboards located in Durham, Peel, Ottawa, Barrie, Thunder Bay, Sudbury and London, as well as online and social media ads. Templates of the ads were available on the Stewardship Ontario website for municipalities to download, customize and use for their own promotion and education initiatives. Website traffic increased by 68% compared to same time period in 2017. In addition, there were over 7,800 digital and social ad clicks linking to the Orange Drop website.

SOCIAL MEDIA

Stewardship Ontario continued to develop content for Orange Drop's social media channels in order to increase following and engagement with residents. Facebook and Twitter posts raised awareness around the resident education campaigns, shared recycling tips and tricks, reminded residents of the locator tool and encouraged proper recycling of Orange Drop materials. Four social media contests between May and October 2018 asked residents to identify the material that was not part of the Orange Drop program. Combined, Orange Drop's social channels gained 658 followers, up 23% from those gained in 2017.

ONTARIO PARKS

Stewardship Ontario continued its ongoing partnership with Ontario Parks and select private parks for the collection of non-refillable pressurized containers. New posters highlighting the Orange Drop cages were sent to 108 participating parks. As well, Ontario Parks featured Orange Drop in a blog post on how to safely dispose of pressurized cylinders (873 views), e-newsletter story (5,400 clicks) and on its social media channels.

PERFORMANCE BY MATERIAL CATEGORY

The tables in this section summarize collection and diversion results for each of the MHSW materials managed by Stewardship Ontario for 2018.

While the volume of batteries collected in 2018 declined from the previous year, the percentage of batteries collected increased to 50% of those available for collection. The collection rate exceeded the 40% target and the actual diversion rate (43%) exceeded the 28% target.

BATTERIES COLLECTED IN ONTARIO

YEAR	TONNES OF BATTERIES COLLECTED	ANNUAL GROWTH (%)
2018	2,964	-5.5
2017	3,136	-2.8
2016	3,226	38.5
2015	2,330	32.8
2014	1,754	38.0
2013	1,271	31.6

The 2018 collection rates for refillable and non-refillable pressurized containers are comparable to the previous year. These material categories did not meet their collection targets in 2018 due to the target tonnes for both categories increasing significantly in the past two years as a result of increased supply while collections were stable.



2018 TONNES COLLECTED

MATERIAL CATEGORY	AVAILABLE FOR COLLECTION*	COLLECTION TARGET RATE (%)	TARGET TONNES	ACTUAL COLLECTION TONNES	ACTUAL COLLECTION RATE (%)	VARIANCE TO TARGET (TONNES)	PRIOR YEAR (TONNES)	VARIANCE TO PRIOR YEAR (TONNES)	ISP YEAR
Antifreeze	711	50%	356	497	70%	142	1,210	(713)	2017
Fertilizers	2	n/a	n/a	4	N/A	N/A	5	(1)	2016
Oil Containers	758	52%	394	769	102%	375	1,569	(800)	2017
Oil Filters	2,091	85%	1,777	2,396	115%	619	4,622	(2,226)	2017
Paints & Coatings	7	77%	6	8	108%	2	8	-	2015
Pesticides	-	57%	-	-	N/A	0	-	-	2016
Pressurized Containers (Non-Refillable)	830	46%	382	318	38%	-64	336	(18)	--
Pressurized Containers (Refillable)	472	98%	462	424	90%	-38	447	(22)	--
Single-Use Batteries	5,877	40%	2,351	2,964	50%	613	3,136	(171)	--
Solvents	232	46%	107	44	19%	-63	80	(37)	2016

*Based on the quantity supplied by stewards participating in the MHSW Program

2018 TONNES DIVERTED

MATERIAL CATEGORY	AVAILABLE FOR COLLECTION*	DIVERSION TARGET RATE (%)	TARGET TONNES	ACTUAL DIVERSION TONNES	ACTUAL DIVERSION RATE (%)	VARIANCE TO TARGET (TONNES)	YEAR (TONNES)	VARIANCE TO PRIOR YEAR (TONNES)	ISP YEAR
Antifreeze	711	50%	356	497	70%	142	1,210	(713)	2017
Fertilizers	2	n/a	n/a	-	N/A	N/A	-	-	2016
Oil Containers	758	52%	394	769	102%	375	1,569	(800)	2017
Oil Filters	2,091	85%	1,777	2,396	115%	619	4,622	(2,226)	2017
Paints & Coatings	7	62%	5	4	54%	0	6	(3,315)	2015
Pesticides	-	n/a	n/a	-	N/A	N/A	-	-	2016
Pressurized Containers (Non-Refillable)	830	46%	382	318	38%	-64	336	(18)	--
Pressurized Containers (Refillable)	472	98%	462	424	90%	-38	447	(22)	--
Single-Use Batteries	5,877	28%	1,669	2,549	43%	880	2,697	(147)	--
Solvents	232	6%	14	0	0%	-14	17	(17)	2016

*Based on the quantity supplied by Stewards participating in the MHSW Program

MHSW (Orange Drop) Financial Performance

This table shows financial details for each of the MHSW materials managed by Stewardship Ontario as at December 31, 2018.

	FEE REVENUE	TOTAL PROGRAM COSTS	SURPLUS/ (DEFICIT)	ITC-CRA*	ACCUMULATED RESERVE
Antifreeze	\$330,204	\$425,536	\$(95,332)	\$1,267,315	\$1,582,862
Fertilizers	(4,550)	63,523	(68,073)	94,243	127,635
Oil Containers	4,773,020	1,983,894	2,789,126	6,110,754	9,779,002
Oil Filters	2,546,146	2,329,116	217,030	6,061,589	7,683,405
Paints/Coatings	2,168,571	263,413	1,905,158	7,144,849	11,792,686
Pesticides	0	52,232	(52,232)	100,762	57,519
Pressurized Containers (Non-Refillable)	217,612	1,037,625	(820,013)	818,446	405,360
Pressurized Containers (Refillable)	173,553	247,684	(74,131)	158,530	285,289
Single-Use Batteries	9,160,380	8,830,555	329,824	4,974,116	5,393,411
Solvents	229,587	79,847	149,740	675,702	1,410,190
TOTAL	\$19,594,523	\$15,313,425	\$4,281,098	\$27,406,308	\$38,517,358

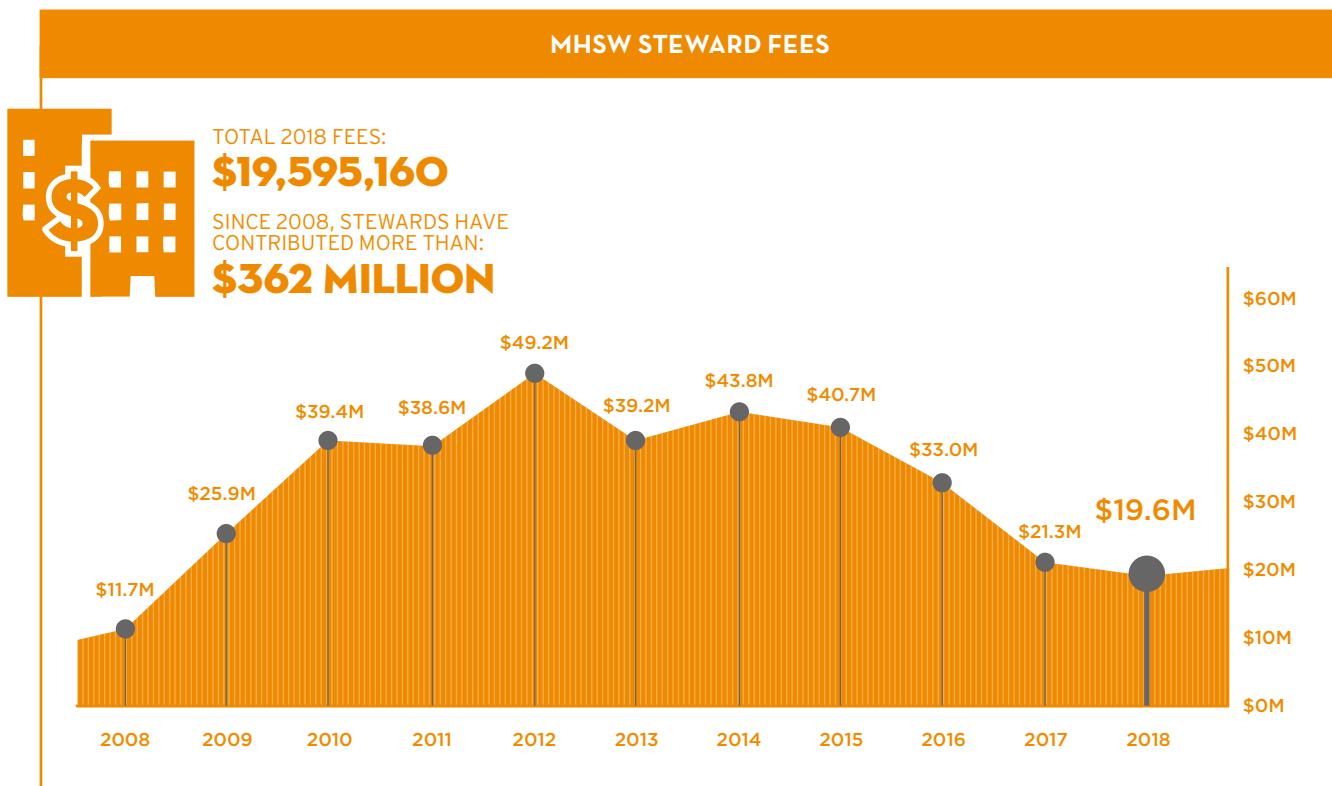
*Input Tax Credit paid by Canada Revenue Agency

In April 2018, Stewardship Ontario received a favourable decision from the Tax Court of Canada on its claim for GST/HST input tax credits for fees related to the MHSW Program. Stewardship Ontario collected GST/HST on MHSW invoices and remitted GST/HST to the Canada Revenue Agency (CRA) since the program's inception in 2008. However, CRA denied the program's claims for input tax credits which included GST/HST on amounts paid to third-party service providers for recycling and disposal of materials. As a result, any GST/HST paid by Stewardship Ontario had to be included in total program costs charged to stewards.

The court determined that Stewardship Ontario provides a service that entitles it to receive input tax credits. Funds received from CRA have been allocated to MHSW's material specific reserves and there are also general reserves and deferred revenues to be allocated. The distribution of the reserves will be managed as part of the program wind up.

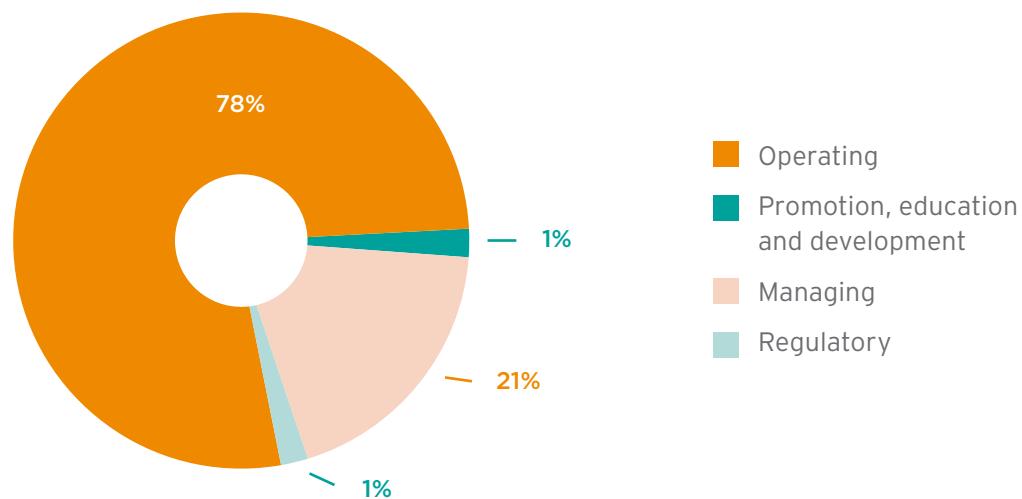
REVENUE FROM STEWARD FEES

Fees decreased by \$1.7 million in 2018, to \$19.6 million, as a result of ongoing steward migration to industry stewardship plans. (Steward reports for any prior year's obligations are captured in the year that the reporting takes place.)



2018 MHSW PROGRAM EXPENSES

This graphic shows a breakdown of 2018 expenses.



Governance

Board of Directors

The Stewardship Ontario Board of Directors focuses on governance and oversight. The board's duty is to oversee the management of the business activities and affairs of the organization. The board is required to approve the audited financial statements annually, upon recommendation from the Finance, Audit & Performance Committee. The board represents a balance of skills, knowledge and experience, and also reflects appropriate sectoral balance.

Stewardship Ontario has a formal Code of Conduct policy with which all board members must comply regarding personal accountability, conflict of interest and confidentiality.

At December 31, 2018, the board comprised nine directors. Elections to fill vacancies are held in any year in which the term of two or more members of the board of directors is scheduled to end. Directors hold three-year terms.

For biographies of directors and more details about the Stewardship Ontario governance structure, please visit stewardshipontario.ca.

2018 Board Members

John D. Coyne (Board Chair)

Vice President External Affairs and Sustainability,
Unilever Canada Inc.

Debbie Baxter

Vice-President, Corporate Real Estate,
Deloitte (Independent Director)

Diane J. Brisebois

President and Chief Executive Officer,
Retail Council of Canada

Robert Chant

Senior Vice-President, Corporate Affairs and
Communication, Loblaw Companies Ltd.

Robyn Collver

Senior Vice-President, Risk and Regulatory Affairs,
Canadian Tire Corporation Ltd.

Tim Faveri

Vice-President, Sustainability and Shared Value,
Maple Leaf Foods Inc.

Gulnara Gabidullina

Director, Global Product Stewardship,
Procter & Gamble Inc.

Joseph Longo

General Counsel & Vice President, Real Estate,
Longo Brothers Fruit Markets Inc.
(appointed to the board during 2018)

Sylvain Mayrand

Executive Vice-President, Operations,
A. Lassonde Industries Inc.

Mark Reed

Director of Sales - National Accounts,
Shell Lubricants
(resigned from the board during 2018)

Scott Tudor

Director, Sustainability, Sobeys Inc.
(resigned from the board during 2018)

2018 BOARD MEETINGS AND ATTENDANCE

Mark Reed resigned from the board March 28, 2018.
 Scott Tudor resigned from the board June 20, 2018.
 Joseph Longo was appointed to the board December 14, 2018.

BOARD MEMBER	JAN. 25, 2018	MARCH 28, 2018	JUNE 20, 2018	SEPT 28, 2018	DEC. 14, 2018
Debbie Baxter	Yes	Yes	Yes	Yes	Yes
Diane Brisebois	Yes	Yes	Yes	Yes	Yes
Robert Chant	Yes	Yes	Yes	No	Yes
Robyn Collver	Yes	Yes	No	Yes	Yes
John Coyne	Yes	Yes	Yes	Yes	No
Tim Faveri	Yes	Yes	Yes	Yes	Yes
Gulnara Gabidullina	Yes	Yes	Yes	Yes	Yes
Joseph Longo	n/a	n/a	n/a	n/a	Yes
Sylvain Mayrand	Yes	Yes	Yes	Yes	Yes
Mark Reed	Yes	Yes	n/a	n/a	n/a
Scott Tudor	Yes	Yes	Yes	n/a	n/a

Board Committees

FINANCE, AUDIT & PERFORMANCE COMMITTEE

The Finance, Audit & Performance Committee oversees the quarterly financial and diversion performance of Stewardship Ontario. The committee also instructs and meets the auditors, without the presence of management, at least once per year. Committee meetings and attendance are shown below.

Mark Reed resigned from the committee in June 2018.

Joseph Longo was appointed to the committee in December, 2018.

BOARD MEMBER	MARCH 1, 2018	JUNE 6, 2018	SEPT. 12, 2018	NOV. 28, 2018
Debbie Baxter	Yes	Yes	Yes	Yes
Diane Brisebois	No	No	Yes	Yes
Joseph Longo	n/a	n/a	n/a	n/a
Sylvain Mayrand	Yes	Yes	Yes	Yes
Mark Reed	Yes	Yes	n/a	n/a

GOVERNANCE & NOMINATING COMMITTEE

The Governance & Nominating Committee is responsible for ensuring the board and its committees are properly constituted and mandated. The committee recruits directors in accordance with its skill-based requirements and makes recommendations to the board regarding vacancies and appointments. It oversees the board, committee and director evaluation process annually and encourages implementation of best governance practices.

Scott Tudor resigned from the committee in June 2018.

BOARD MEMBER	MARCH 8, 2018	JUNE 7, 2018	SEPT. 13, 2018	NOV. 29, 2018
Scott Tudor	Yes	Yes	n/a	n/a
Tim Faveri	Yes	Yes	Yes	Yes
Gulnara Gabidullina	Yes	Yes	Yes	Yes
Robyn Colver	Yes	Yes	Yes	Yes

MHSW EXECUTIVE WIND UP COMMITTEE

In December 2018, Stewardship Ontario created the MHSW Executive Wind Up Committee, a board-level committee composed of directors who are: not affiliated with an organization managing MHSW material on behalf of producers; not intending to provide compliance services; and not engaged to provide services to such organizations.

The role of this committee is to oversee the development and execution of a wind up plan for the MHSW program in accordance with the terms set out by the Minister of the Environment, Conservation & Parks.

The members of the MHSW Executive Wind Up Committee are:

- Debbie Baxter, Chair
- Diane Brisebois
- Sylvain Mayrand
- Joseph Longo

Financial Performance

**Stewardship Ontario Financial Statements
For the year ended December 31, 2018**

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Financial Statements

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- 32 Notes to Financial Statements**



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222 Bay Street
Suite 2200, PO Box 131
Toronto ON M5K 1H1 Canada

Independent Auditor's Report

To the Members of Stewardship Ontario

Opinion

We have audited the financial statements of Stewardship Ontario (the Organization), which comprise the balance sheet as at December 31, 2018, and the statements of changes in net assets, operations and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Organization as at December 31, 2018, and its results of operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Organization in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian accounting standards for not-for-profit organizations, 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. In preparing the financial statements, management is responsible for assessing the Organization's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Organization or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Organization's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.



As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Organization's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Organization's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Organization to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

BDO Canada LLP

Chartered Professional Accountants, Licensed Public Accountants

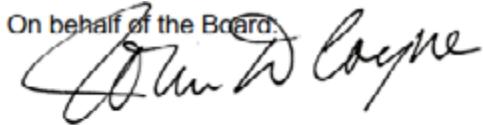
Toronto, Ontario
March 28, 2019

BDO Canada LLP, a Canadian limited liability partnership, is a member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms.

Stewardship Ontario Balance Sheet

<u>December 31</u>	<u>2018</u>	<u>2017</u>
Assets		
Current		
Cash	\$ 68,948,190	\$ 29,039,415
Investments (Note 2)	18,912,047	20,325,867
Accounts and other receivables (Note 3)	8,286,292	13,177,789
Prepaid expenses and deposits	26,448	31,354
	<hr/>	<hr/>
Investments (Note 2)	96,172,977	62,574,425
	<hr/>	<hr/>
	42,406,084	40,357,723
	<hr/>	<hr/>
	\$138,579,061	\$102,932,148
Liabilities and Net Assets		
Current		
Accounts payable and accrued liabilities (Note 4)	\$ 39,572,133	\$ 36,431,535
Deferred revenue (Note 6)	9,805,560	9,805,560
Continuous Improvement Fund (Note 7)	19,807,154	23,305,487
	<hr/>	<hr/>
	69,184,847	69,542,582
Net Assets		
Unrestricted	59,863,684	23,859,036
Internally restricted (Note 8)	9,530,530	9,530,530
	<hr/>	<hr/>
	69,394,214	33,389,566
	<hr/>	<hr/>
	\$138,579,061	\$102,932,148

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, 2018

	Unrestricted	Internally Restricted	2018 Total
Balance, beginning of year	\$ 23,859,036	\$ 9,530,530	\$ 33,389,566
Excess of revenue over expenses for the year	36,004,648	-	36,004,648
Balance, end of year	\$ 59,863,684	\$ 9,530,530	\$ 69,394,214

For the year ended December 31, 2017

	Invested in Capital Assets	Unrestricted	Internally Restricted	2017 Total
Balance, beginning of year	\$ 39,689	\$ 25,134,289	\$ 9,911,108	\$ 35,085,086
Deficiency of revenue over expenses for the year	(39,689)	(1,275,253)	(380,578)	(1,695,520)
Balance, end of year	\$ -	\$ 23,859,036	\$ 9,530,530	\$ 33,389,566

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

Stewardship Ontario Statement of Operations

For the year ended December 31	2018	2017
Revenue		
Blue Box program steward fees	\$127,879,724	\$121,870,641
MHSW program steward fees	19,595,160	21,287,674
Investment income (Note 9)	<u>1,665,818</u>	692,820
	<u>149,140,702</u>	<u>143,851,135</u>
Expenses		
Blue Box Program		
Municipal Transfer Payments	118,887,549	116,715,713
Continuous Improvement Fund (Note 12(b))	23,993	12,951
Research and development	507,437	49,939
Promotion and education	<u>382,925</u>	363,341
	<u>119,801,904</u>	<u>117,141,944</u>
MHSW Program		
Direct material costs (Note 4)	12,321,857	17,831,997
Research and development	2,387	-
Promotion and education	<u>77,929</u>	27,787
	<u>12,402,173</u>	<u>17,859,784</u>
Common costs		
Program management (Note 4)	7,740,025	8,783,950
Resource Productivity and Recovery Authority (Note 10)	<u>2,566,987</u>	1,760,977
	<u>10,307,012</u>	<u>10,544,927</u>
Total expenses	<u>142,511,089</u>	<u>145,546,655</u>
Excess (deficiency) of revenue over expenses for the year before undernoted item	<u>6,629,613</u>	<u>(1,695,520)</u>
GST recovery (Note 11)	<u>29,375,035</u>	<u>-</u>
Excess (deficiency) of revenue over expenses for the year	<u>\$ 36,004,648</u>	<u>\$ (1,695,520)</u>

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

Stewardship Ontario Statement of Cash Flows

For the year ended December 31

2018

2017

Cash provided by (used in)

Operating activities

Excess (deficiency) of revenue over expenses for the year	\$ 36,004,648	\$ (1,695,520)
Adjustments to reconcile excess (deficiency) of revenue over expenses for the year to cash provided by operating activities		
Amortization of capital assets	-	39,689
Non-cash component of investment income	852,589	765,467
Changes in non-cash working capital balances:		
Accounts and other receivables	4,891,497	2,271,511
Prepaid expenses and deposits	4,906	4,413
Accounts payable and accrued liabilities	3,140,598	(1,175,625)
Continuous Improvement Fund	(3,498,333)	(3,978,961)
	<hr/> 41,395,905	(3,769,026)
Investing activities		
Purchase of investments net of expenses	(1,487,130)	(1,279,028)
Increase (decrease) in cash during the year	39,908,775	(5,048,054)
Cash, beginning of year	29,039,415	34,087,469
Cash, end of year	\$ 68,948,190	\$ 29,039,415

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

Stewardship Ontario Notes to Financial Statements

December 31, 2018

1. Significant Accounting Policies

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

(a) 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 February 14, 2003, the Organization was formally incorporated in the Province of Ontario as a corporation without share capital. The Organization is a not-for-profit organization and as such is not subject to income taxes.

On November 30, 2016, The Resource Recovery and Circular Economy Act (2016) ("RRCEA") was proclaimed along with the Waste Diversion Transition Act (2016) ("WDTA") which replaces the WDA. Under the RRCEA, Waste Diversion Ontario ("WDO") was continued under its new name, the Resource Productivity and Recovery Authority ("RPRA").

Blue Box Program

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.

MHSW Program

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 Program Plan in November 2007. MHSW officially commenced operations July 1, 2008.

Ontario Regulation 11/12 took effect on April 1, 2012 where the Organization is required to apply a market share methodology to recover both ongoing operating costs and to recover past deficits that have accumulated over the course of the program. This cost recovery methodology is designed to result in an economically sustainable program.

Management received letters from the Ministry of the Environment and Climate Change ("Ministry") on April 12 and December 11, 2018. Pursuant to Section 14 of the WDTA, the Ministry directs the Organization to wind up the MHSW waste diversion program. The Organization must submit a plan to wind up to the RPRA no later than June 30, 2019. The single-use battery portion of the MHSW program will cease operation on June 30, 2020 and the remainder of the MHSW program will cease operation on December 31, 2020.

(b) Basis of Accounting

The financial statements have been prepared using Canadian accounting standards for not-for-profit organizations.

Stewardship Ontario Notes to Financial Statements

December 31, 2018

1. Significant Accounting Policies - (Continued)

(c) Revenue Recognition

The Blue Box program steward fees are recognized as revenue based on reported tonnages for stewards registered with the Organization. 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. The MHSW program steward fees are recognized on a cost recovery basis when costs are incurred and collection is reasonably assured. Any revenue resulting from compliance and enforcement activities are recorded as revenue when the amount can be reasonably estimated and collection is reasonably assured.

The Organization follows the deferral method of accounting for revenues, including the Glass Market Development Fund. Amounts received for programs are recognized as revenue when the related expenses are incurred.

(d) Financial Instruments

Fixed income investments are valued at year-end quoted market prices. Realized and unrealized gains (losses) are recorded in the statement of operations. The Organization accounts for these investments on a settlement date basis and transaction costs associated with these investment activities are included in the statement of operations. These investments have been presented according to their contractual maturity dates.

Common shares and convertible loans receivable in private companies are carried at cost or amortized cost (net of any impairments).

Unless otherwise noted, the Organization initially measures its financial assets and liabilities at fair value and subsequently measures its financial assets and liabilities at amortized cost.

(e) Use of Estimates

The preparation of financial statements in accordance with Canadian accounting standards for not-for-profit organizations requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Significant estimates include estimates of unreported tonnages and collectability of steward fees, accrued post collection costs and the valuation of accounts receivable and investments. Actual results could differ from management's best estimates as additional information becomes available in the future.

Stewardship Ontario Notes to Financial Statements

December 31, 2018

2. Investments

	2018	2017
Cash held with broker	\$ 75,047	\$ 197,495
Fixed income	61,243,084	60,486,095
Common shares, private company	-	500,000
Impairment on common shares of private company	-	(500,000)
	<hr/>	<hr/>
Less: Current portion	61,318,131	60,683,590
	18,912,047	20,325,867
	<hr/>	<hr/>
	\$ 42,406,084	\$ 40,357,723

Fixed income investments bear interest at 1.70% to 4.65% (2017 - 1.70% to 4.65%) and mature between March 2019 and January 2026 (2017 - January 2018 and January 2026). The decrease in market value of investments for the year ended December 31, 2018 amounted to \$640,715 (2017 - decrease of \$156,365) which is included in investment income (Note 9).

During 2011, the Organization purchased 544,828 common shares of a privately owned company with no common share prices quoted in an active market. The purchase represented a 12.64% ownership at the time of purchase. The Organization had no management involvement in the company and the investment was held for sale. In 2014, the Organization recognized an impairment loss on the common shares of the private company of \$500,000 as there was uncertainty relating to the recoverability. In the current year, the private company dissolved and the investment was written off.

3. Accounts and Other Receivables

	2018	2017
Blue Box and MHSW program steward fees	\$ 8,397,428	\$ 13,316,772
Other	190,050	70,778
Allowance for doubtful accounts	(301,186)	(209,761)
	<hr/>	<hr/>
	\$ 8,286,292	\$ 13,177,789

Stewardship Ontario Notes to Financial Statements

December 31, 2018

4. Significant Contracts

(a) Canadian Stewardship Services Alliance Inc. ("CSSA")

The Organization entered into an agreement with CSSA to sublicense its original intellectual property licenses and intellectual property associated therewith, being the Enterprise Information System to CSSA, for consideration of \$1,650,000. This agreement expires in 2023 with the option to renew for an additional five year period.

Effective January 1, 2014, the Organization entered into a Management Services Agreement with CSSA for management, administrative and technical support, other services and facilities for administrative, technical and reporting activities. During the year, the Organization incurred costs of \$5,300,000 (2017 - \$6,191,552) for these services and are included in program management expenses. Included in accounts payable and accrued liabilities is \$501,297 (2017 - \$587,353) relating to these services.

Certain members of the CSSA board of directors are also members of the Organization's board of directors that account for approximately 25% (2017 - 20%) of the Organization's board membership.

(b) Automotive Materials Stewardship Inc. ("AMS")

On February 2, 2017, the Organization entered into a Supply Chain Agreement with AMS, a newly established organization whose program was previously under the Organization's MHSW program. AMS focuses on the waste management of anti-freeze, oil filters, and oil containers. Under the Supply Chain Agreement, the Organization shall purchase from AMS, the Organization's Automotive Market Share of tonnes of each Automotive Materials (oil filters, oil containers, and anti-freeze) under the supply chain. During the year, the Organization incurred costs of \$3,507,711 (2017 - \$3,278,974) under this agreement which are included in direct material costs for the MHSW program. Included in accounts payable and accrued liabilities is \$527,368 (2017 - \$612,163 in accounts receivable) relating to these services.

The Organization and AMS do not share any common board members.

All transactions between the Organization, CSSA, and AMS are in the normal course of operations and are recorded at their exchange amount as agreed upon by the parties.

Stewardship Ontario Notes to Financial Statements

December 31, 2018

5. Loan Receivable

During 2012, the Organization provided a \$1,500,000 convertible five year loan that bears interest at Bank of Canada prime rate plus 1% which is accrued and compounded monthly and may be converted into shares on the same terms as the principal. The loan is convertible into common shares of the company at a discounted rate under certain conditions or at the option of the Organization at the maturity date. The loan is to a private company with no common share prices quoted in an active market. The Organization recognized an allowance for doubtful loan of \$1,500,000 relating to the convertible loan as there is uncertainty relating to the collectability of the balance owing.

In May 2016, the convertible loan arrangement was terminated. As part of the termination, the company will make a loan payment to the Organization in the aggregated amount of \$300,000 of which \$150,000 was due in June 2017 and \$50,000 is due annually from June 2018 to June 2020 and is non-interest bearing. As at December 31, 2017, the Organization had yet to receive the 2017 scheduled payments and, as a result, recognized an allowance for the doubtful loan of \$300,000. As at December 31, 2018, the Organization has received a payment of \$200,000 and, as a result, reversed \$200,000 of the allowance for doubtful loan.

6. Deferred Revenue

	2018	2017
Blue Box Program		
Glass Market Development Fund	\$ 666,017	\$ 666,017
MHSW Program		
Deferred revenue	<u>9,139,543</u>	<u>9,139,543</u>
	<hr/>	<hr/>
	\$ 9,805,560	\$ 9,805,560

Deferred revenue in the Blue Box Program represents unspent resources that are externally restricted for the Glass Market Development Fund. Commitments related to the Glass Market Development Fund are further explained in Note 12(a).

Deferred revenue for the MHSW program represents fee revenue billed in advance in the first quarter of 2012 and is deferred in accordance with the Organization's revenue recognition policy (Note 1(c)). This deferred revenue is expected to be recognized as revenue at the end of the program.

Stewardship Ontario Notes to Financial Statements

December 31, 2018

7. Continuous Improvement Fund ("CIF")

Each year, the Organization is directed to hold back a portion of the municipal blue box obligation for the CIF; see Note 12(b) for further details regarding the fund. The CIF is managed by external parties and directs the Organization to release funds as required.

During the year, the CIF received net contributions of \$nil (2017 - \$1,050,000) and spent \$3,918,862 (2017 - \$5,289,978) on continuous improvement activities. The funds held by the Organization for the CIF are included in cash.

8. Internally Restricted Net Assets

	2018	2017
Sustaining Fund	\$ 3,500,000	\$ 3,500,000
Plastic Market Development Fund	4,964,379	4,964,379
Blue Box Fund	1,066,151	1,066,151
	<hr/>	<hr/>
	\$ 9,530,530	\$ 9,530,530

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 and therefore internally restricted \$3,500,000 for this purpose.

The directors authorized the establishment of the Plastic Market Development Fund for investment in infrastructure for plastic markets and activities for their development and therefore internally restricted funds for this purpose.

The directors authorized the establishment of the Blue Box Fund to support future efficiency in the Blue Box supply chain and therefore internally restricted funds for this purpose.

9. Investment Income

	2018	2017
Interest income	\$ 2,362,705	\$ 1,236,889
Dividend income	155,702	221,398
Loss on sale of investments	(13,743)	(431,198)
	<hr/>	<hr/>
Adjustment to fair value	2,504,664	1,027,089
Investment expenses	(640,715)	(156,365)
	<hr/>	<hr/>
	\$ 1,665,818	\$ 692,820

Stewardship Ontario Notes to Financial Statements

December 31, 2018

10. Resource Productivity and Recovery Authority

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 RPRA that relate to program oversight.

11. GST Recovery

On March 21, 2018, a judgment was received in favour of the Organization whereby it was entitled to claim past input tax credits for periods from 2011 to 2017.

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, 2018, the Organization has spent \$2,235,508 (2017 - \$2,235,508) and the remaining balance is restricted for glass market development projects.

(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 was created 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. Each year, RPRA determines the amount of the annual municipal obligation funded by the Organization's stewards that is passed along to the CIF and any cumulative unused amounts are reflected in Deferred Revenue (Note 6). As of December 31, 2018, approved project funding and related commitments for the CIF amounted to approximately \$16,264,831 (2017 - \$21,482,541) of the total fund balance of \$19,807,154 (2017 - \$23,305,487).

Stewardship Ontario Notes to Financial Statements

December 31, 2018

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, unless otherwise noted. A brief description of management's assessments of these risks is as follows:

(a) Credit Risk:

Financial instruments potentially exposed to credit risk include cash, investments, accounts and other receivables, and loan 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, corporate bonds, securities backed by any chartered bank, guaranteed investment certificates or equity and bond pooled funds. Accounts and other receivables, are not significantly concentrated, monitored regularly for collections, and the carrying amount represents the maximum credit risk exposure. The Organization's provision for uncollectable accounts, other receivables and loans receivable is approximately \$401,186 (2017 - \$501,010).

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. Prior to being permitted to join an ISP, a steward is expected to have no outstanding receivables. This is expected to minimize the Organization's credit risk.

(b) Interest Rate Risk:

The Organization is exposed to interest rate risk from fluctuations in interest rates depending on prevailing rates at renewal of fixed income investments. To manage this exposure, the Organization invests mainly in fixed income securities (federal or provincial government securities, securities backed by any chartered bank or equity and bond pooled funds), 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.

(c) 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 expenditures. 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. Ontario Regulations related to the MHSW Program allow the Organization to charge actual costs to stewards and significantly reduces risks related to timing of receipt and payments for the MHSW Program (Note 1(a)).



Stewardship Ontario

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