



Stewardship Ontario

**RPRA Filing on
2019 Program Performance**

April 1, 2020

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Signature of the Chair of the Board of Directors

This report has been approved by the Stewardship Ontario Board of Directors for submission to the Resource Productivity and Recovery Authority (RPRA) in accordance with the requirements of the *Waste Diversion Transition Act, 2016*.

A large, light blue circular graphic is positioned in the background. It features a stylized arrow that starts at the top, curves around the right side, and points towards the bottom left, creating a sense of a continuous cycle or flow.

Robyn Collver
Chair
Stewardship Ontario Board of Directors



SECTION 1

2019 Blue Box Program Performance

Background

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 Stewardship Ontario website and the Resource Productivity and Recovery Authority (RPPRA) website.

www.stewardshipontario.ca
www.rppra.ca

Stewardship Ontario presented the Blue Box Program performance and fee schedule to stewards on October 24, 2019. Relevant documentation, including a discussion paper, presentations and Q&As from the meeting can be found at <https://stewardshipontario.ca/engagement/information-sessions>.

Direction to Wind Up the Blue Box Program

The transition of the Blue Box Program to full producer responsibility was initiated by a direction letter from the Minister of Environment, Conservation and Parks on August 15, 2019, which will make industry responsible for both the funding and operation of residential recycling in the province.

Stewardship Ontario is required to submit a Blue Box Program Wind Up Plan to RPPRA by June 30, 2020. It is expected that RPPRA will approve the plan by December 31, 2020. During this time, the Ontario government will develop and consult on regulations to support the new responsibility framework for the Blue Box Program. According

to the Minister's letter, the first communities are to be transitioned beginning January 1, 2023, with the entire province operating under the new framework by December 31, 2025.

Steward Registration, Reporting & Audit

There were 1,830 stewards registered with Stewardship Ontario's Blue Box Program as of December 31, 2019. In 2019, 1,454 steward reports were submitted (versus 1,424 in 2018).

\$128,700,725 in Blue Box fee revenue was invoiced in 2019, versus \$127,879,724 in 2018, an increase of 0.6%. The 2019 fee revenue was below the budgeted revenue by 1.1%.

Steward reports were analyzed to flag inconsistencies in reporting against prior years. Where inconsistencies are flagged, follow-up activities are initiated to confirm the reported quantities and to make corrections where required. At the end of 2019, steward reports representing more than 90% of reported tonnes had undergone desk verification and review.

Stewardship Ontario utilizes a compliance audit framework designed in cooperation with Deloitte LLP and PwC, that was built upon the best practices from European EPR jurisdictions. The criteria for selecting stewards for comprehensive audits is designed to improve overall confidence in the quality of reporting. Fourteen compliance reviews relating to 2019 packaging and printed paper reports were launched in the fall of 2019. In addition, any steward-initiated adjustment requests involving a significant amount undergo an independent third party audit.

Program Diversion Performance

The Blue Box Program supports the efforts of Ontario municipalities and First Nations communities to collect and market packaging and printed paper. Municipalities are paid 50% of the costs they incur as a result of the Blue Box Program.

in 2019 declined from the previous year due to less paper and newsprint being collected and marketed. Generated tonnes, an estimate of the total quantity of residential packaging and printed paper generated by residential households, also decreased. Recycled kilograms per capita decreased by 6.0% reflecting the reduced tonnes managed.

Based on municipal reports through the RPRA Datacall, the Blue Box Program continues to exceed the 60% government-mandated target, and saw a slight year-over-year decrease in the general recycling rate from 61.3% to 60.2%. Recycled tonnes managed through the Blue Box

	2018	2017	2016	2015	YOY Variance %
Recycling Performance					
Recycled Tonnes	780,555	822,979	836,227	852,437	-5.2%
Generated Tonnes	1,296,207	1,342,017	1,340,947	1,332,544	-3.4%
Recycling Rate	60.2%	61.3%	62.4%	64.0%	-1.8%
Provincial Recycling Target	60.0%	60.0%	60.0%	60.0%	0.0%
Population Served by PPP Program	13,078,155	12,962,740	12,814,578	12,830,228	0.9%
Recycling kg per Capita	59.7	63.5	65.3	66.4	-6.0%
Accessibility Performance					
# Households Served	5,278,332	5,237,905	5,174,930	5,165,154	0.8%
% Households with Access to PPP Program	94.0%	94.4%	94.6%	95.3%	-0.4%
Consumer Awareness	97.0%	97.0%	97.0%	97.0%	0.0%

Program Cost

The overall net cost of the Blue Box recycling system increased by 19.8%. This increase is primarily due to reduced commodity revenue, as anticipated from stricter trade restrictions on recyclable material globally. As a result, the net cost per tonne and per capita also increased from 2018.

Province	Ontario 2018	Ontario 2017	Ontario 2016	Ontario 2015	YOY Variance %
Cost Performance					
Recycled Tonnes	780,555	822,979	836,227	852,437	-5.2%
Net Cost*	\$299,307,268	\$249,809,925	\$258,540,366	\$263,726,504	19.8%
Net Cost per Tonne	\$383	\$304	\$309	\$309	26.3%
Net Cost per Capita	\$23	\$19	\$20	\$21	-4.5%
P&E Cost per Capita	\$0.61	\$0.56	\$0.64	\$0.58	8.9%
Recycled kg per Capita	59.7	63.5	65.3	66.4	-6.0%

* Net cost includes total supply chain costs, commodity revenues, P&E, regulatory, market development and program management costs.

Market Development

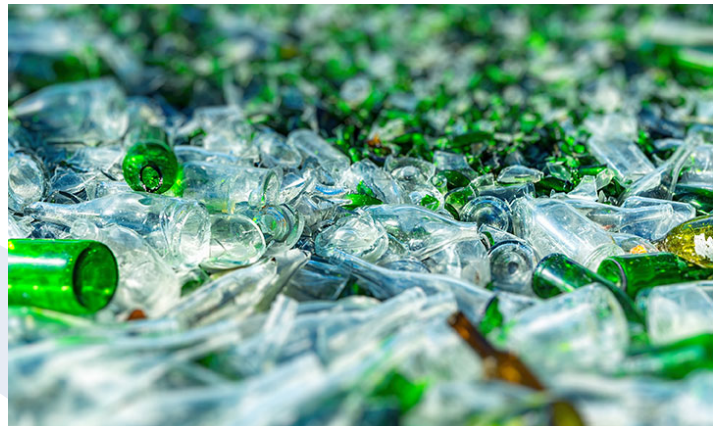
Stewardship Ontario has an obligation under the Blue Box Program Plan to “undertake investments in market development activities in partnership, where possible, with other parties (e.g. the private sector, municipal, provincial and federal interests).”

Two key elements that contribute to the successful expansion of markets for recyclable materials are ongoing investment in emerging technologies and collaboration with partners. Stewardship Ontario has put considerable funds and effort into researching, investing and nurturing markets for materials such as mixed rigid plastics and film plastic, and more recently laminated packaging, mixed broken glass and hot beverage cups. Efforts in developing markets and ensuring their sustainability continue as Stewardship Ontario staff work to stay at the forefront of evolving technologies and approaches to ensure market development activities result in tangible and measurable results. Highlights of the work over the last 12 months are summarized below.

Mixed Broken Glass

One of the responsibilities that Stewardship Ontario has in operating the Ontario Blue Box Program is to undertake research and work to improve the performance of the program as well as investigate options to accommodate problematic materials in the program.

Glass has been deemed a problematic material in the Blue Box Program due to its tendency to comeingle with materials during collection and because it breaks easily and can cause quality issues in the recovery and recyclability of other materials. With this in consideration, Stewardship Ontario began piloting an alternative approach to the handling of residential glass in early



2018, which includes obtaining data to measure the effectiveness and efficiency of a separate collection method.

Stewardship Ontario partnered with the Continuous Improvement Fund (CIF) to undertake the segregated residential glass collection pilot project. The purpose of the project is to determine the financial and operational impact of collecting glass segregated from other curbside recyclable streams. This includes looking at aspects like overall costs, resident participation and acceptance, recovery rates, contamination, potential glass value and the impact on other commodity values.

The pilot project was conducted in cooperation with Northumberland County (a fully comingled collection system) and operated from September 2018 until February 2019. The project involved 200 households (two, 100 household collection routes), where residents were given a separate container to set out glass separate from their other recyclables. During the pilot collection period, observations and measurements were made to determine the participation of residents in the project, and the quantity and quality of glass captured.

The results of the pilot project demonstrated that:

- Residents accepted and participated in the pilot project. Most of the residential glass from the residences in the pilot area was set out in the segregated collection system; and
- The glass that was collected through the pilot project was extremely clean with very little contamination in this stream.

The financial analysis of the project indicated that the increase in the operational cost to collect glass as a segregated stream (capital equipment, regular operations, etc.) would be greater than the savings that would be realized through other aspects of the program. A segregated collection for residential glass would result in improved material capture and diversion rates, but the increased cost to the operations would be a prohibitive factor.

Capturing More Materials from Around the Home

In 2019, Stewardship Ontario continued to partner with the CIF to undertake Curbside and Multi-Family Waste Composition Studies. These studies provide insight for both industry and municipalities on what paper and packaging materials residents are actively sorting for recycling. Ten municipalities participated in the studies, with three providing multi-family waste audits and one depot location. The data from these studies provided very important information on the changing mix of materials in the Blue Box stream. This information will be used by both municipalities and industry to plan for program requirements and resident communication to manage this changing mix.

To further bolster the data found at the curb, MRF Material Composition and Density Studies were completed at six Ontario MRFs over two seasons. The data was used to help

determine the overall tonnes of the various Blue Box materials recovered in Ontario each year. Stewardship Ontario allocates material for reported commingled materials based on waste composition data. While Blue Box performance and cost metrics are primarily expressed as weight-based measures, (i.e. tonnes collected as a proportion of tonnes generated, material cost per tonne managed and fee rates per kilogram), understanding the volume of individual Blue Box waste materials is equally as important.

Flexible Film Plastics Pilot Project

To ensure the Blue Box Program keeps pace with ongoing changes to paper and packaging, and continues to improve performance by recovering clean materials for recycling, there is a need to investigate new strategies for collecting materials from the curb. In 2019, this pilot project was in the initial research stage and potential partners were being engaged to solicit feedback on the concept and assist with the development of a plan that will be operationally practical and feasible and provide data to measure effectiveness. The pilot project is anticipated to launch in mid-2020.

There is always a challenge when changes in packaging materials, like flexible film plastics, continually alter the composition of materials found in the waste stream. Flexible film plastic materials cause quality issues for other material streams. It is a growing segment of materials and there is a need to develop methods for its collection and processing to ensure they are captured effectively, recovered and do not affect the quality of other recyclable materials.

The concept of the pilot project is to collect, recover and recycle residential flexible film plastic within a cart-based Blue Box system. The plan for the pilot project is to utilize a method to segregate the flexible film plastic materials,

thereby isolating these materials in the recycling stream. This will allow the materials to be collected within the cart-based system without any loss of the cart collection efficiency, and be readily sorted out of the other recycled materials without disrupting the current MRF operations. This pilot project will also test if segregated collection can result in significant capture and recovery of these materials.

Promotion and Education

Contamination Reduction Campaign

Stewardship Ontario continued to support municipalities' efforts of reducing contamination in residential blue boxes with its 2019 advertising campaign. The campaign focused on educating residents to rinse dirty containers, and avoid putting organics and other unacceptable materials, such as toys, in their bins.

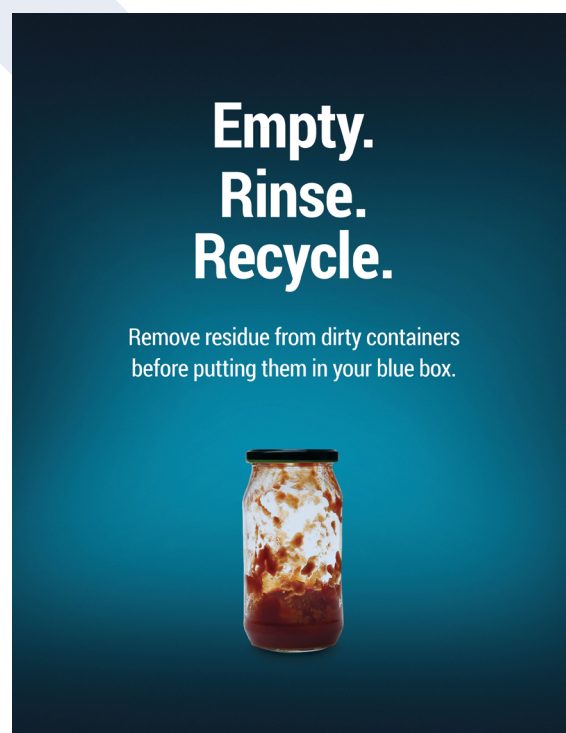
Campaign results:

- 24,370,041 total impressions
- 8,004 visits to the campaign landing page
- 1,852 radio spots
- 331 GO transit posters
- 2,549 clicks on digital ads
- Ad recall research indicated that 65% of residents recalled hearing or seeing an ad on household recycling or what goes in the recycling bin

A holiday version of the campaign ran in November and December reminding residents that holiday lights and decorations do not belong in their recycling. This campaign generated over 5.9 million impressions.

Social Media

Stewardship Ontario engages residents on Twitter by providing useful recycling tips and reminders. In 2019, Stewardship Ontario's Twitter posts generated 97,000 impressions.



Check with your municipality for
a full list of acceptable items.

StewardshipOntario.ca/RecycleRight



Stewardship Ontario



SECTION 2

2019 MHSW Program Performance

Background

The MHSW Program is designed to collect consumer household hazardous or special waste material and manage these materials through to their end-of-life (recycled or disposed of safely) in accordance with the *Waste Diversion Transition Act, 2016*.

Stakeholder Consultation

On April 12, 2018, the Minister of the Environment and Climate Change issued direction to Stewardship Ontario to wind up the Municipal Hazardous or Special Waste (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*.

On December 11, 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.

On July 2, 2019, Stewardship Ontario received further direction from the Minister regarding the wind up of the MHSW Program. The new direction letter amendments are summarized below:

- The program to manage all designated materials except single-use batteries will now cease operation on June 30, 2021 instead of December 31, 2020;
- The program to manage single-use batteries will continue to cease operation on June 30, 2020;
- Stewardship Ontario is to develop a proposal to return surplus funds to Ontario consumers of Municipal Hazardous or Special Material (MHSM) in its proposed Wind Up Plan;

- For MHSM categories whose recovery is managed by Stewardship Ontario, the plan will set out rules governing a fee elimination during the wind up period;
- For MHSM categories that are managed through industry stewardship plans, the plan will include options to return surplus funds to MHSM consumers.

Stewardship Ontario consulted on these topics with stakeholders and submitted a revised Wind Up Plan to RPRA by the Minister's September 30, 2019 deadline. RPRA approved the MHSW Wind Up Plan in December, 2019, which returns surplus funds to consumers through the implementation of fee reductions for all MHSW materials. More information can be found at <https://stewardshipontario.ca/mhsw-windup>.

Steward Registration, Reporting & Audit

There were 443 stewards registered with the MHSW Program as of December 31, 2019. In 2019, 1,573 steward reports were received (versus 1,126 reports in 2018).

\$14,479,758 in fee revenue was invoiced in 2019, versus \$19,595,160 for 2018, a decrease of 26.1% due to stewards exiting the program. The 2019 fee revenue was below budget by 10.0% because of stewards exiting the program.

Each quarter, stewards' filed reports are analyzed via a comparative analysis tool which flags inconsistencies quarter-to-quarter on a season-to-season basis. Members of CSSA's National Stewardship Services Team review reports where inconsistencies are flagged and conduct a follow up program.

Stewardship Ontario utilizes a compliance audit framework designed in cooperation with Deloitte LLP and PwC, that was built upon the best

practices from European EPR jurisdictions. The criteria for selecting stewards for comprehensive audits is designed to improve overall confidence in the quality of reporting.

To facilitate administrative harmonization and cost savings, Stewardship Ontario participates in Used Oil Management Association steward audit process. Ten MHSW review cases were executed by UOMA in 2019.

Program Supply Chain

Stewardship Ontario oversees the reverse supply chain (collection, transportation and recycling) of pressurized containers and single-use dry cell batteries. Only service providers that are approved by Stewardship Ontario are eligible to perform material management activities. All approved Stewardship Ontario service providers must adhere to vendor standards, policies and procedures established by Stewardship Ontario. The most up-to-date list of approved service providers can be found at www.stewardshipontario.ca.

The supply chain activities for the other seven materials have been transitioned to ISP operators. As not all stewards transitioned to these ISP's, Stewardship Ontario still has an obligation to provide recycling services on their behalf. As such, Stewardship Ontario has entered into agreements with the ISP's in order to fulfill their obligation for these materials.

In 2019, Stewardship Ontario entered into a new Agreement with Product Care Association (PCA) to continue the cost sharing of their supply chain until June 30, 2021. This date was chosen as it coincides with the wind up of the MHSW Program. It is expected that Stewardship Ontario will enter into a similar agreement with Automotive Materials Stewardship (AMS) in early 2020. Stewardship Ontario's supply chain-related

responsibilities and duties include fostering a marketplace that maintains and encourages competition, achieves efficiencies and cost-effectiveness and ensures that all industry service providers have a fair and equitable opportunity to participate in the provision of services.

Stewardship Ontario monitors performance against its service provider standards. Examples of monitoring activities include:

- Service provider reviews, supported by the 'audit checklist' developed in 2018
- On site/event visits on a priority and/or rotating basis
- Audits of materials, service provider and collection sites
- On-site training of municipalities and commercial service providers on program requirements, standards, and reporting changes
- Ensure field network partner issues, desires and goals are communicated and understood and that strategies and plans are appropriately responsive

In anticipation of the Wind Up Plan being approved on December 31, 2019, changes to the current Municipal Agreement were necessary to enable Stewardship Ontario to make payments to communities for materials that will continue under the MHSW Program after June 30, 2020, namely pressurized containers. In the absence of an amendment to the current municipal agreement, Stewardship Ontario will have no mechanism to continue payments after the wind up date for single-use batteries on June 30, 2020 and would be forced to terminate all agreements effective that date.

To solve this problem, Stewardship Ontario issued Amending Agreements to all municipal and First Nations partners on August 16, 2019.

In Q4, Stewardship Ontario followed up with all partners to ensure that signed agreements were received prior to the termination deadline. At the end of the year, Stewardship Ontario had received responses from approximately 85% of all partners. Outreach to those outstanding Amendments will continue in Q1 2020.

Accessibility

The following chart details consumer accessibility by collector type for MHSW in 2019:

Channel - Activity	2019 Actual
Municipal – Depot	88
Municipal – Events	294
Automotive – Commercial Sites*	-
Automotive – Do It Yourself (DIY) Sites*	-
Return-to-Retail (R2R)	30
Battery Incentive Program (BIP)	5,739

**The collection sites for used antifreeze, oil containers and oil filters were transitioned to Automotive Materials Stewardship on April 1, 2017.*

Program Performance Against Targets

2019 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)
Antifreeze	322	50%	161	219	68%	58	497	-278
Fertilizers	N/A	N/A	N/A	2	N/A	N/A	4	-1
Oil Containers	646	52%	336	719	111%	383	769	-50
Oil Filters	874	85%	743	876	100%	133	2,396	-1,520
Paints & Coatings	2	77%	2	6	145%	1	8	-5
Pesticides	-	-	-	-	-	-	-	-
Pressurized Containers (Non-Refillable)	792	46%	364	327	41%	-37	318	9
Pressurized Containers (Refillable)	461	98%	452	415	90%	-37	424	-9
Single-Use Batteries	5,950	40%	2,380	3,224	54%	844	2,964	260
Solvents	173	46%	80	16	9%	-63	44	-27

*Annual Target Tonnes of the automotive materials are refreshed and are based on 2019 Supply. Annual Target Tonnes of Paints & Coatings, Pesticides, Solvents, and Fertilizers are refreshed and use the 2019 year-end market share onto 2017 Supply.

**Actual Collection Tonnes of the automotive materials are the reconciled amounts following the guidelines under the Automotive Materials Supply Chain Sharing Agreement between SO and AMS. Actual Collection Tonnes of Paints & Coatings, Pesticides, Solvents, and Fertilizers are the tonnes SO purchased from PCA.

Program Performance Against Targets

2019 Tonnes Diverted

Material Category	Available for Collection	Diversion Target Rate (%)	Target Tonnes*	Actual Diversion Tonnes**	Actual Diversion Rate (%)	Variance to Target (Tonnes)	Prior Year (Tonnes)	Variance to Prior Year (Tonnes)
Antifreeze	322	50%	161	219	68%	58	497	-278
Fertilizers	N/A	N/A	N/A	-	N/A	N/A	-	-
Oil Containers	646	52%	336	719	111%	383	769	-50
Oil Filters	874	85%	743	876	100%	133	2,396	-1,520
Paints & Coatings	2	62%	1	1	53%	0	4	-3
Pesticides	-	-	-	-	-	-	-	-
Pressurized Containers (Non-Refillable)	792	46%	364	327	41%	-37	318	9
Pressurized Containers (Refillable)	461	98%	452	415	90%	-37	424	-9
Single-Use Batteries	5,950	28%	2,380	2,773	33%	393	2,549	223
Solvents	173	6%	10	-	0%	-10	0	-

*Annual Target Tonnes of the automotive materials are refreshed and are based on 2019 Supply. Annual Target Tonnes of Paints & Coatings, Pesticides, Solvents, and Fertilizers are refreshed and use the 2019 year-end market share onto 2017 Supply.

**Actual Collection Tonnes of the automotive materials are the reconciled amounts following the guidelines under the Automotive Materials Supply Chain Sharing Agreement between SO and AMS. Actual Collection Tonnes of Paints & Coatings, Pesticides, Solvents, and Fertilizers are the tonnes SO purchased from PCA.

Promotion and Education

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

Website

The Orange Drop website contains a locator tool for consumers to search drop off locations and events by postal code for their Orange Drop materials. The website saw almost 67,000 visitors in 2019, up 13% from 2018.

Advertising

Stewardship Ontario reused its 2018 ad creative to promote proper disposal of Orange Drop materials, as well as the website's depot locator tool. The campaign ran as digital ads from mid-June to mid-July. Templates were made available for municipalities to customize and use for their own advertising purposes.

Campaign results:

- 150% increase in website traffic compared to 2018 campaign
- 4,363,248 impressions
- 17,178 ad clicks

Partnership with Ontario Parks

Stewardship Ontario continued its ongoing partnership with Ontario Parks and select private parks for the collection of non-refillable pressurized containers. Ontario Parks featured Orange Drop in a blog post on how to safely dispose of pressurized cylinders in their May e-newsletter and on their social media channels.

Results:

- 9,258 page views of the Orange Drop blog post on the Ontario Parks website
- 375 clicks on Orange Drop's story in the Ontario Parks e-newsletter

Social Media

Orange Drop's Twitter and Facebook accounts continued to provide residents with seasonal tips and reminders, as well as promote the depot locator tool and drop off events for AMS and MHSW materials. Twitter and Facebook posts generated nearly 3 million impressions and over 9,600 link clicks. Combined, Orange Drop's social channels gained 282 followers.

From May to September, Orange Drop focused social media posts to remind residents not to put propane cylinders in their recycling bins.

Throughout the summer months, Orange Drop ran social media contests to encourage engagement, increase following and educate residents on proper disposal of Orange Drop materials. There were 1,386 contest entries.



Find a drop-off location:
[MakeTheDrop.ca](https://www.makethedrop.ca)





SECTION 3

2019 Audited Financial Statements

Stewardship Ontario

Financial Statements

For the year ended December 31, 2019

Stewardship Ontario

Financial Statements

For the year ended December 31, 2019

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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, 2019, 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, 2019, 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 30, 2020

Stewardship Ontario Balance Sheet

December 31	2019	2018
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Assets

Current

Cash	\$ 67,890,350	\$ 68,948,190
Investments (Note 2)	23,427,560	18,912,047
Accounts and other receivables (Note 3)	6,200,359	8,286,292
Prepaid expenses and deposits	28,575	26,448

	97,546,844	96,172,977
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Investments (Note 2)	40,295,634	42,406,084
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	\$137,842,478	\$138,579,061
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Liabilities and Net Assets

Current

Accounts payable and accrued liabilities	\$ 38,934,147	\$ 39,572,133
Deferred revenue (Note 6)	9,807,566	9,805,560
Continuous Improvement Fund (Note 7)	17,553,275	19,807,154

	66,294,988	69,184,847
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Net Assets

Unrestricted	59,079,476	59,863,684
Internally restricted (Note 8)	12,468,014	9,530,530

	71,547,490	69,394,214
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	\$137,842,478	\$138,579,061
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On behalf of the Board:

	Director
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	Director
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Stewardship Ontario Statement of Changes in Net Assets

For the year ended December 31, 2019

	Unrestricted	Internally Restricted	2019 Total
Balance, beginning of year	\$ 59,863,684	\$ 9,530,530	\$ 69,394,214
Excess of revenue over expenses for the year	2,153,276	-	2,153,276
Blue Box Program wind-up costs (Note 8)	415,052	(415,052)	-
Blue Box Program net investment income (Note 8)	(3,352,536)	3,352,536	-
Balance, end of year	\$ 59,079,476	\$ 12,468,014	\$ 71,547,490

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

Stewardship Ontario Statement of Operations

For the year ended December 31	2019	2018
Revenue		
Blue Box program steward fees	\$ 128,700,725	\$ 127,879,724
MHSW program steward fees	14,479,758	19,595,160
Investment income (Note 9)	4,148,345	1,665,818
	<u>147,328,828</u>	<u>149,140,702</u>
Expenses		
Blue Box Program		
Municipal Transfer Payments	121,256,520	118,887,549
Continuous Improvement Fund (Note 12(b))	3,122	23,993
Research and development	146,467	507,437
Promotion and education	412,306	382,925
Program wind-up costs (Note 8)	415,052	-
	<u>122,233,467</u>	<u>119,801,904</u>
MHSW Program		
Direct material costs (Note 4)	11,625,579	12,321,857
Research and development	-	2,387
Promotion and education	52,363	77,929
Program wind-up costs	1,115,583	-
	<u>12,793,525</u>	<u>12,402,173</u>
Common costs		
Program management (Note 4)	7,384,735	7,740,025
Resource Productivity and Recovery Authority (Note 10)	2,763,825	2,566,987
	<u>10,148,560</u>	<u>10,307,012</u>
Total expenses	<u>145,175,552</u>	<u>142,511,089</u>
Excess of revenue over expenses for the year before undernoted item	2,153,276	6,629,613
GST recovery (Note 11)	-	29,375,035
Excess of revenue over expenses for the year	\$ 2,153,276	\$ 36,004,648

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

Stewardship Ontario Statement of Cash Flows

For the year ended December 31

2019

2018

Cash provided by (used in)

Operating activities

Excess of revenue over expenses for the year	\$ 2,153,276	\$ 36,004,648
Adjustments to reconcile excess of revenue over expenses for the year to cash provided by operating activities		
Non-cash component of investment income	(903,179)	852,589
Changes in non-cash working capital balances:		
Accounts and other receivables	2,085,933	4,891,497
Prepaid expenses and deposits	(2,127)	4,906
Accounts payable and accrued liabilities	(637,986)	3,140,598
Deferred revenue	2,006	-
Continuous Improvement Fund	(2,253,879)	(3,498,333)
	444,044	41,395,905

Investing activities

Purchase of investments net of expenses	(1,501,884)	(1,487,130)
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Increase (decrease) in cash during the year

(1,057,840) 39,908,775

Cash, beginning of year

68,948,190 29,039,415

Cash, end of year

\$ 67,890,350 \$ 68,948,190

Stewardship Ontario

Notes to Financial Statements

December 31, 2019

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") 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.

On August 15, 2019, Management received a letter from the Minister of the Environment, Conservation and Parks that directed the Organization to transition the management of the Blue Box Program to producers of plastic and other packaging. The Organization must submit a plan to transition the Blue Box Program no later than June 30, 2020. The Blue Box Program is expected to begin its transition in January 2023 and cease operations by the end of 2025. Corporate wind up is expected to follow the Blue Box Program transition.

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.

Stewardship Ontario Notes to Financial Statements

December 31, 2019

1. Significant Accounting Policies - (Continued)

(a) Business Organization and Operations - (Continued)

Management received letters from the Ministry of the Environment, Conservation and Parks ("Ministry") on April 12 and December 11, 2018. Pursuant to Section 14 of the WDTA, the Ministry directed the Organization to wind up the MHSW waste diversion program. The Wind Up Plan was approved by RPRA on January 8, 2020. 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 June 30, 2021.

(b) Basis of Accounting

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

(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.

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.

Stewardship Ontario

Notes to Financial Statements

December 31, 2019

1. Significant Accounting Policies - (Continued)

(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. Actual results could differ from management's best estimates as additional information becomes available in the future.

2. Investments

	2019	2018
Cash held with broker	\$ 471,070	\$ 75,047
Fixed income	63,252,124	61,243,084
	63,723,194	61,318,131
Less: Current portion	23,427,560	18,912,047
	\$ 40,295,634	\$ 42,406,084

Fixed income investments bear interest at 1.70% to 4.65% (2018 - 1.70% to 4.65%) and mature between April 2020 and August 2029 (2018 - March 2019 and January 2026). The increase in market value of investments for the year ended December 31, 2019 amounted to \$1,277,003 (2018 - decrease of \$640,715) which is included in investment income (Note 9).

3. Accounts and Other Receivables

	2019	2018
Blue Box and MHSW program steward fees	\$ 6,535,343	\$ 8,397,428
Other	150,683	190,050
Allowance for doubtful accounts	(485,667)	(301,186)
	\$ 6,200,359	\$ 8,286,292

Stewardship Ontario Notes to Financial Statements

December 31, 2019

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 ended December 31, 2019, the Organization incurred costs of \$5,425,000 (2018 - \$5,300,000) for these services and are included in program management expenses. Included in accounts payable and accrued liabilities as at December 31, 2019 is \$643,519 (2018 - \$501,297) relating to these services.

Certain members of the CSSA board of directors were also members of the Organization's board of directors and accounted for approximately 25% (2018 - 25%) of the Organization's board membership until September 26, 2019. On this date, the Organization introduced a Conflict of Interest Mitigation Plan to ensure independence during the Wind Up of the Organization. There are no longer any shared board members between CSSA and the Organization. Further details are included in Note 1(a).

(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 ended December 31, 2019, the Organization incurred costs of \$1,852,177 (2018 - \$3,507,711) under this agreement which are included in direct material costs for the MHSW program. Included in accounts and other receivables as at December 31, 2019 is \$129,363 (2018 - \$527,368 in accounts payable and accrued liabilities) 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, 2019

5. Loan Receivable

During 2012, the Organization provided a \$1,500,000 convertible five year loan that bears interest at the 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. As at December 31, 2019, the Organization has received an additional payment of \$50,000 and, as a result, reversed \$50,000 of the allowance for doubtful loan.

6. Deferred Revenue

	2019	2018
Blue Box Program		
Glass Market Development Fund	\$ 666,017	\$ 666,017
MHSW Program		
Deferred revenue	9,141,549	9,139,543
	\$ 9,807,566	\$ 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, 2019

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 ended December 31, 2019, the CIF spent \$2,623,256 (2018 - \$3,918,862) on continuous improvement activities. The funds held by the Organization for the CIF are included in cash.

8. Internally Restricted Net Assets

	2019	2018
Sustaining Fund	\$ 7,503,635	\$ 3,500,000
Plastic Market Development Fund	4,964,379	4,964,379
Blue Box Fund	-	1,066,151
	\$ 12,468,014	\$ 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.

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.

During the year, the directors authorized the transfer of the \$1,066,151 balance in the Blue Box Fund to the Sustaining Fund to support the Blue Box Program transition activities and \$415,052 was spent on the Blue Box Program wind-up. In addition, \$3,352,536 of net investment income earned in the Blue Box Program was authorized to be transferred to the Sustaining Fund.

9. Investment Income

	2019	2018
Interest income	\$ 3,138,643	\$ 2,362,705
Dividend income	106,522	155,702
Loss on sale of investments	(171,857)	(13,743)
	3,073,308	2,504,664
Adjustment to fair value	1,277,003	(640,715)
Investment expenses	(201,966)	(198,131)
	\$ 4,148,345	\$ 1,665,818

Stewardship Ontario Notes to Financial Statements

December 31, 2019

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

In fiscal 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 is committed to pay \$2,901,525 to a Glass Market Development Fund from contributions from stewards of glass. As of December 31, 2019, the Organization has spent \$2,235,508 (2018 - \$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, 2019, approved project funding and related commitments for the CIF amounted to approximately \$15,266,576 (2018 - \$16,264,831) of the total fund balance of \$17,553,275 (2018 - \$19,807,154).

Stewardship Ontario Notes to Financial Statements

December 31, 2019

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) 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 \$535,667 (2018 - \$401,186).

(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 ladderized 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)).

These risks have not changed from the prior year.

Stewardship Ontario Notes to Financial Statements

December 31, 2019

14. Subsequent Events

Subsequent to year-end, the outbreak of the novel strain of coronavirus, specifically identified as "COVID-19", has resulted in worldwide emergency measures to combat the spread of the virus. These measures, which include self-quarantine periods, have caused disruption to businesses globally, which are resulting in an economic slowdown. The duration and impact of the COVID-19 outbreak is unknown at this time, including measures implemented by governments and central banks. It is not possible to reliably estimate the length or effect of these developments, including the impact on the financial results of the Organization in future periods.