



Thinking
beyond
the box

Stewardship Ontario

2015 ANNUAL REPORT



EVOLVE | PARTNER | PERFORM

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MESSAGE TO STAKEHOLDERS



*Debbie Baxter, Board Chair, Stewardship Ontario
VP, Corporate Real Estate Financial Advisory,
Deloitte*

*It's my pleasure to introduce you to
Stewardship Ontario's 2015 Annual Report.*

2015 has been a year of recycling changes in Ontario, and the way we manage materials is evolving too. In this report, you'll find a review of our key activities and partnerships, along with performance metrics for our Blue Box Program and Municipal Hazardous or Special Waste (MHSW) Program—better known to Ontarians as Orange Drop. I'm proud to say that, with a 65 per cent recycling rate, the Blue Box Program continues to perform well above the government-mandated target of 60 per cent.

Recycling is Evolving

The way Ontarians recycle is changing. As more people read their news online, fewer newspapers make it into the Blue Box. As more consumers shop online, there's extra boxboard and corrugated packaging being recycled after purchases are delivered. At the same time, the proportion of plastic is taking up more space at the curb. As a society, we're increasingly shopping for convenience, so more and more items like plastic clamshells and resealable plastic packaging are being collected from residences all across Ontario.

Purchasers are also demanding smaller single-serve packages, and stewards are making packaging design changes—downsizing, modifying and light weighting. This means that there's a greater volume of plastic packaging being supplied into the marketplace by stewards. These shifts are part of a trend that's become known as the 'Evolving Tonne.' They all affect how we collect, process and sell recyclables.

There was a slight increase in the costs of recycling Blue Box material in 2015. The uplift primarily reflects higher collection rates, processing and handling overheads, as well as a decline in recycling commodity prices since a high in 2011. To contain costs, Stewardship Ontario continues to research and test innovative ways to develop new markets for Blue Box materials.



Industry Stewardship Plans

Our MHSW Program saw a number of changes during the year. Following a successful handover by the Stewardship Ontario team, Product Care Association (PCA) began managing the paint and coatings supply chain in June. Our Return to Retail (R2R) Program now focuses exclusively on battery collection.

In October, Waste Diversion Ontario (WDO) approved PCA's Industry Stewardship Plan (ISP) for pesticides, solvents and fertilizers.

Growth Initiatives

Each year we encourage Ontarians to recycle more—focusing on those materials that aren't reaching their targets. Our integrated Promotion & Education campaigns are designed to increase recycling awareness and activity. In 2015, our battery campaign continued the successful *Positives Outweigh the Negatives* push from the past two years, and generated over 42 million impressions. At the same time, we increased accessibility by adding 345 new locations where Ontario residents can recycle hazardous waste materials. We also conducted a safety campaign to keep portable propane cylinders out of the Blue Box. And, to target often forgotten bathroom recyclables, our *Nature is Truly Calling* materials for municipalities and *Just Because it's Empty Doesn't Mean it's Garbage* campaign raised awareness about recycling materials that often don't make it into residential Blue Boxes.

What's Next?

As we look to the future, new legislation is on the horizon. In November 2015 the Ontario Government proposed the Waste-Free Ontario Act, formalizing the intention to shift towards a circular economy, which uses resources for as long as possible, extracts maximum value from them and recovers materials to regenerate products. It's a concept that we at Stewardship Ontario support, with the control of materials assigned to those who distribute them into the marketplace. We believe that any increase in producer funding should be paired with a matching increase in control over recycling operations—so that stewards are able to manage outcomes and costs. We are pleased to note that the Act passed on June 1, 2016.

As I reflect on our achievements during another busy year, I would like to thank the stewards, service providers and consumers who have partnered with us in 2015 to achieve a level of recycling performance that makes a difference to our province. I'd also like to acknowledge our dedicated Board of Directors and our fantastic Stewardship Ontario team, all of whom bring their passion, energy and expertise to recycling every day. I look forward to the coming year, as we continue to help drive recycling innovation in an industry that is in constant motion.





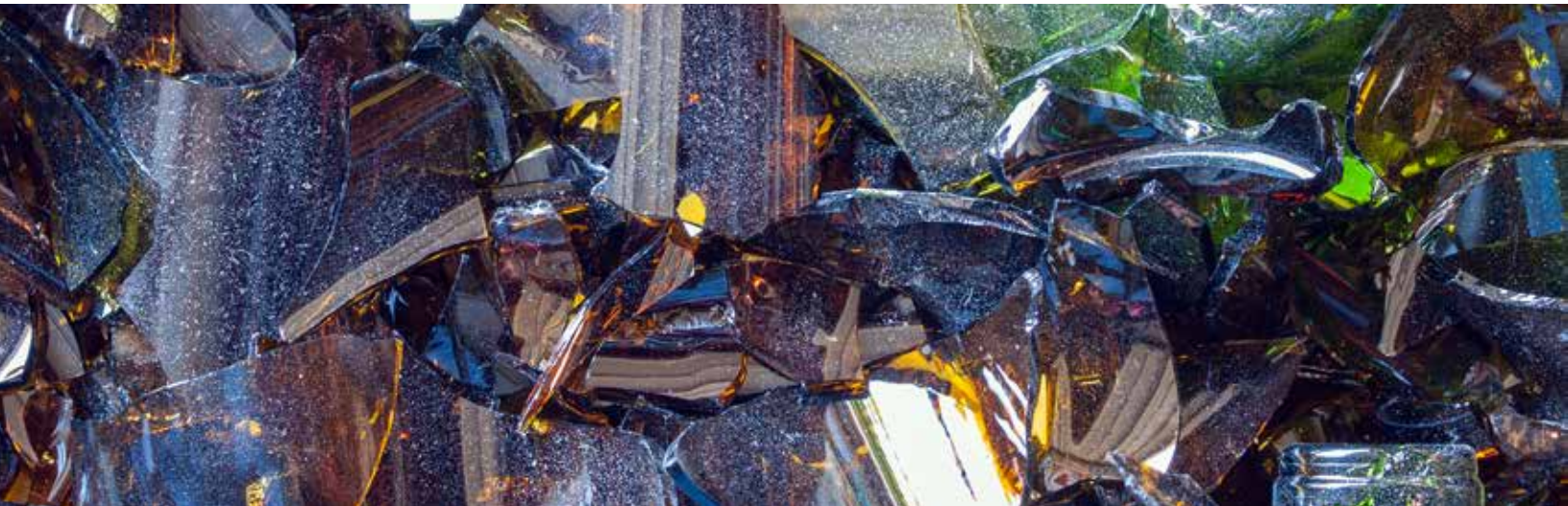
YEAR IN REVIEW

Partners in an Evolving Marketplace

In 2015, we continued to partner with manufacturers, collectors, processors and industry organizations to recycle more, recycle better and add value to the materials we collect. As a significant part of our mandate, we focus our energy and attention on developing sustainable markets for Ontario's Blue Box materials. We continue to track evolving technologies and conduct thorough research and testing, so we can be sure that new markets are applicable and measurable. Our work in 2015 continued to build on our key activities from past years.

Market Development for the Blue Box

Managing Mixed Broken Glass: A number of upgrades and modifications have been identified that could potentially reduce material contamination at Material Recycling Facilities (MRFs) and improve the quality of material going to re-processors. This development comes through the Continuous Improvement Fund (CIF) and projects involving industry stakeholders, such as the



Association of Municipalities of Ontario (AMO), the City of Toronto, Stewardship Ontario (SO) and Waste Diversion Ontario (WDO). For example, in 2016, mixed broken glass cleanup systems will be installed in the York Region and City of Guelph recycling facilities. Between the two systems, it is estimated there will be an annual processing savings of \$750,000.

Blue Box in the Bathroom: Ongoing Curbside and Multi-Family Waste Composition Studies give both industry and municipalities insight into what packaging and printed paper materials residents are actively sorting for recycling.

Our curbside composition studies in 2012 and 2013 had revealed that recyclable materials, such as boxboard toothpaste packaging, toilet paper roll tubes, tissue boxes and toiletry packaging, are commonly thrown out with the garbage. That's why in 2015 we continued to target these overlooked materials, encouraging consumers to remember to recycle their bathroom packaging. You can read more about our *Nature is Truly Calling* and *Just Because it's Empty Doesn't Mean it's Garbage* campaigns in Part Three: Promotion & Education.

Composite Materials and Optical Sorters: Polycoated cartons, aseptic containers and hot and cold beverage cups, also known as composite paper packaging, are an increasingly popular packaging material used for containing liquids such as milk, juice, wine, and soups because they provide a shelf-stable form of packaging. Composite paper packaging combines high-quality fibre with film plastic, and sometimes aluminium, and it's estimated that volumes of this type of packaging will triple in the

marketplace over the next 10 years. We've been working with the Carton Council of Canada and Tim Hortons on a multi-phase project to ensure there are sustainable markets for all materials included in this category. In 2015, we focused on the capture of hot beverage cups in both manual and automated MRF environments.



Plastic Laminates: These materials are used to produce lightweight packaging for food and beverage products, as well as cat food and cosmetics. Currently, there are no large-scale, viable end-processing solutions for this material, which sandwiches foil or aluminium between layers of paper and/or plastic. In 2015, Stewardship Ontario continued to work with the Continuous Improvement Fund (CIF), the Canadian Plastics Industry Association (CPIA) and Packaging Consortium (PAC) members on testing pre- and post-consumer plastic laminate samples with end processors, as part of our research into new technology to manage it, as well as potential markets for it.

Continuous Program Improvement for Orange Drop

Anticipating Changes: To meet our collection and recycling obligations, we must strive to keep ahead of market changes. That's why we conduct regular reviews of our programs, processes and payment rates. We challenge ourselves to refine our reverse supply chain, continuously improving the way we manage materials and programs.

Levelling the Playing Field: It's our responsibility to foster an efficient and cost-effective marketplace that maintains and encourages competition, and ensures that all industry service providers have a fair and equitable chance to participate in the provision of services.

Making Recycling Accessible: We're accountable for providing widespread accessibility to convenient drop-off locations for Municipal Hazardous or Special Waste. Every year, we aim to make hazardous waste recycling more accessible to the people of our province. When you know where to take your materials, and what you can drop off, you're more likely to be a conscientious recycler.

In 2015, we increased accessibility by adding 345 new collection sites for Ontario residents to recycle batteries, oil filters and containers, antifreeze and pressurized containers. This brings the total number of Orange Drop locations across Ontario to 18,194. This helped collect 576 more tonnes of batteries in 2015 compared to the previous year.







PROMOTION & EDUCATION

Developing Good Recycling Habits

Our Promotion & Education (P&E) initiatives are carefully chosen every year to increase recycling awareness, encourage behaviour changes and support collection channels, such as municipalities, depots, recycling events, Return to Retail (R2R) locations and incentive partners. We focus our efforts on materials that are missing their targets, as well as missed recycling opportunities, so that we can help stewards meet their individual corporate environmental sustainability objectives and their government-mandated obligations. In 2015, we concentrated our attention on batteries, bathrooms, and channel advertising.

Blue Box Promotions & Education

ENCOURAGING RESIDENTS TO RECYCLE IN THE BATHROOM

Our bathroom packaging awareness campaign was designed to bring consumer attention to the room in the house where recycling is so often overlooked. Curbside composition studies had shown us that both paper and plastics from the bathroom often make their way into garbage rather than the Blue Box. In 2014, we set about changing that with our *Paper is In!* campaign, partnering with five Central Ontario municipalities. In 2015, we stepped up our activity with highly visual resources and a widespread campaign. Spring and fall versions of *Nature is Truly Calling* were provided to municipalities as a helpful resource, while the *Just Because it's Empty Doesn't Mean it's Garbage* awareness campaign ran from the end of April for eight weeks. It focused on transit ads, including in-car posters throughout the GO Network and the TTC, plus in-station advertising at select GO Stations. To this mix, we also added billboard advertising in key markets:

Out of home

22 horizontal billboards in key areas:
Barrie, St. Catharines, Oshawa, Etobicoke,
Mississauga, Scarborough, Windsor, Guelph,
Kingston, Thunder Bay, Peterborough, Kitchener,
London, Sudbury and Ottawa.

Transit advertising

TTC subways and GTA-based GO Trains

- 300 GO Transit in-car posters
- 31 posters in select GO Stations
- 294 TTC in-car posters

TOTAL IMPRESSIONS: 39 million



JUST BECAUSE IT'S EMPTY DOESN'T MEAN IT'S GARBAGE.

Recycle your bathroom packaging.



For more information on what
packaging you can recycle,
visit your local municipal website.



Stewardship Ontario

stewardshipontario.ca

MHSW Promotion & Education

THE POSITIVES OUTWEIGH THE NEGATIVES – BATTERY CAMPAIGN

In 2015, once again we directed our Promotion & Education initiatives at single-use batteries, which are part of the Orange Drop Program. It's a product that is still falling somewhat short of its Ontario target. However, since 2012, there has been a 141 per cent increase in battery collection.

BATTERIES COLLECTED

YEAR	TONNES OF BATTERIES COLLECTED IN ONTARIO
2012	966
2013	1,271
2014	1,754
2015	2,330

To continue the momentum, our 2015 advertising built on the success of past campaigns, repurposing the creative approach that worked so well in 2014. The strikingly simple battery creative focuses on the positive battery terminal, encouraging Ontarians to *Look on the Positive Side and Make a Positive Change*. Each form of advertising included a call to action to recycle batteries, and drove residents to makethedrop.ca to find a convenient drop-off location. Our *Positives Outweigh the Negatives* campaign ran in both spring and fall, and included advertising in the following media:

Out of home

38 billboards appeared in key areas where we wanted to increase battery collection rates

- St. Catharines, Kitchener, London, North Bay, Ottawa, Bellville and Kingston

Online

The Weather Network

Radio

Across six Ontario radio stations

- 1,214 spots aired during the ad run

Transit advertising

TTC subways and GTA-based GO Trains

- 1,200 posters appeared on these networks

TOTAL IMPRESSIONS: 42 million



The  outweighs the 

Recycle your batteries
For a drop off location near you
visit makethedrop.ca

 **ORANGEDROP**

  @makethedrop Managed by Stewardship Ontario - paid for by industry

Make a  change 

**Replace and Recycle your
smoke detector batteries
November 1**

Recycle your batteries
For a drop off location near you
visit makethedrop.ca

 **ORANGEDROP**

  @makethedrop Managed by Stewardship Ontario - paid for by industry

Look on the  side 

Recycle your batteries
For a drop off location near you
visit makethedrop.ca

 **ORANGEDROP**

  @makethedrop Managed by Stewardship Ontario - paid for by industry

Orange Drop Awareness

Awareness of recycling options is essential for increasing the amount of waste diverted from landfill. During 2015, we supported 328 MHSW events across the province.

Social Media: We continue to develop Orange Drop's social platforms, to engage and inform consumers across multiple demographics, and encourage discussions about hazardous waste recycling. Our activity on Facebook and Twitter in 2015 included recycling tips and helped drive our battery campaign messaging. We also regularly share environmental messages as we promote the benefits of recycling.

Parks Publicity: In 2015, the Orange Drop Program continued to provide support to advertise pressurized container collection cages in 85 Ontario Parks and 17 Kids of America (KOA) parks.

- 685,000 Ontario Parks Guides (635,000 English and 50,000 French)
- Over 900 bilingual posters for display in parks

Municipality Resources and Downloads

Knowledge has a substantial influence on the effective use of Stewardship Ontario's programs. By sharing our campaign collateral with Ontario's municipalities, we are able to spread the promotional messages that lead to more recyclables making their way to the right places. In 2015, we repurposed creative designs and made them available to municipalities via our Resource Download Centre on our website at www.stewardshipontario.ca/resources. These creative resources are print-ready and simply require the addition of a municipal logo.

Some educational material provides instructions to residents on what to include in their Blue Boxes, such as our *Nature is Truly Calling* resources. On occasion we will use advertising to reduce contamination and inform consumers on what they should not put in the Blue Box. Particularly relevant in the spring and summer months, our posters were designed to educate Ontarians about the dangers of disposing of portable propane cylinders in the Blue Box, and encourage the safe disposal of these cylinders at Orange Drop locations.



**Keep portable
propane cylinders out
of your recycling**



FOR SAFE DISPOSAL LOCATIONS:
visit MakeTheDrop.ca or contact your local municipality.



**Nature is
truly calling.**

**Recycle your
bathroom packaging.**

add your
logo here



Stewardship Ontario
stewardshipontario.ca

**Nature is
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**Recycle your
bathroom packaging.**

add your
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PROGRAM PERFORMANCE

Managing Accessible, Efficient Recycling Programs

Since its start in 2003, steward contributions to the Blue Box Program have totalled close to a billion dollars, while our industry fully funded MHSW Program has contributed in the region of \$300 million since its inception in 2008. Our Blue Box Program, for which stewards and municipalities share financial responsibility, serves over 13 million residents and more than 5 million households, recycling 66 kilograms of materials per capita of the province's population in 2015. Our MHSW Program now offers 18,194 locations to dispose of household hazardous waste and collected 24,385 tonnes in 2015.



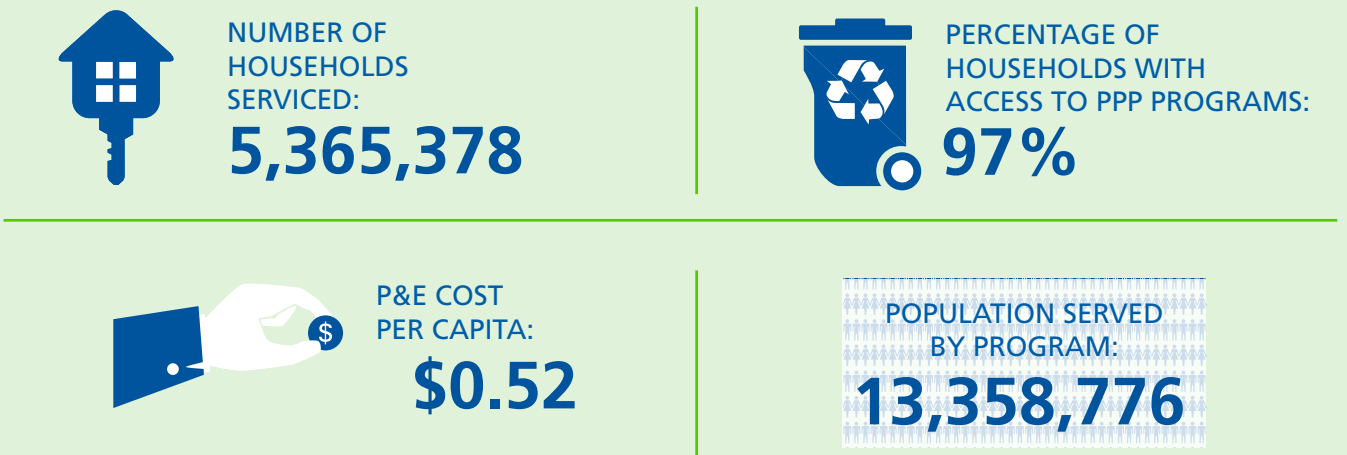
Blue Box Program Performance

1. Recycling Performance:

(2014 DATA ON BB)



2. Access:

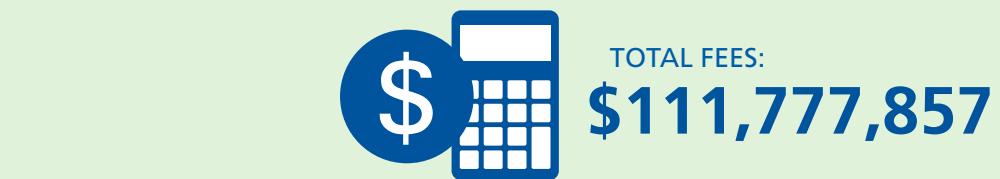


3. Stewards:



4. Steward Fees:

2015 FINANCIAL ACTUAL



Recycling Target

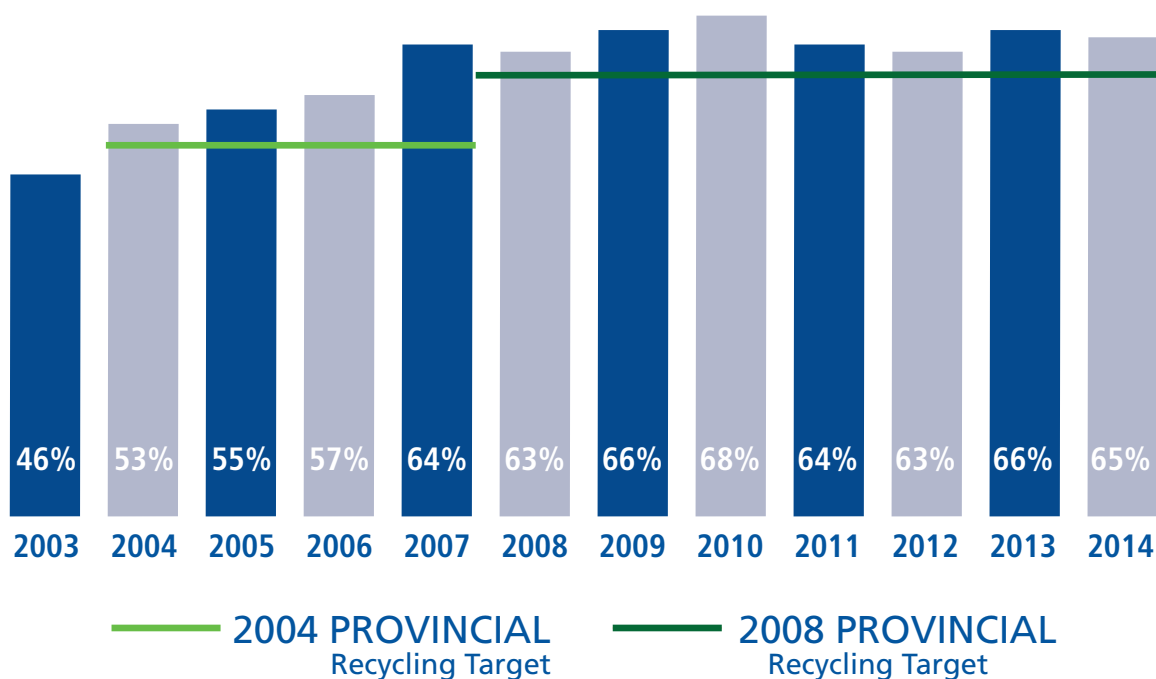
As part of the Blue Box Program, Ontario's municipalities collect and divert packaging and printed paper from the waste stream, and Stewardship Ontario pays municipalities 50 per cent of the costs incurred as a result of the program.

The Program continues to exceed the 60 per cent recycling target mandated by the Ontario Government, with a small decrease in the recycling rate from 65.8 per cent in 2013 to 64.9 per cent in 2014. Primary contributors to this slight decline result from a decrease in recycled quantities of printed paper and glass materials.

A slight increase in the net costs of recycling Blue Box material reflects higher collection, processing and handling charges, and reduced commodity prices. The increases in Blue Box plastics, which are lighter but take up more space, may also be impacting costs.

While recycled tonnes showed a slight decline of 1.7 per cent over the previous year, the recycled kilograms per capita declined slightly more at 3.1 per cent. This is the result of both population growth and the reduction of recycled tonnes.

The chart below shows the quantity of Blue Box materials recycled annually in Ontario through the Blue Box Program since it was launched in 2003. In 2004, the performance target was set by the provincial government at 50 per cent, and rose to 60 per cent in 2008.



Annual material diversion rates reflect previous calendar year results.

PROGRAM DIVERSION PERFORMANCE

Province	Ontario 2014	Ontario 2013	YoY Variance %
Recycling Performance			
Recycled Tonnes	884,504	900,135	-1.7%
Generated Tonnes	1,361,930	1,368,160	-0.5 %
Recycling Rate	64.9 %	65.8%	-1.3%
Provincial Recycling Target	60.0%	60.0%	
Population Served by PPP Program	13,358,776	13,178,310	1.4%
Recycled kg per Capita	66.2	68.3	-3.1%
Accessibility Performance			
# Households Serviced	5,365,378	5,222,058	2.7%
% Households with Access to PPP Program	97%	97%	–
P&E Cost per Capita	\$0.52	\$0.59	-11.4%
Consumer awareness	97%	97%	–

Please note that the population and per capital values for 2013 have been updated to reflect the most recent Census data.

Blue Box Financial Performance

The overall net cost of the Blue Box recycling system increased by 2.5 per cent (\$6.2 million) in 2014, although the net cost per capita remained flat. The primary reason for this slight increase is higher operating costs for collection and processing, as well as an increase in depot/transfer station material handling costs. These resulted from new contractor rates and a rise in staffing costs.

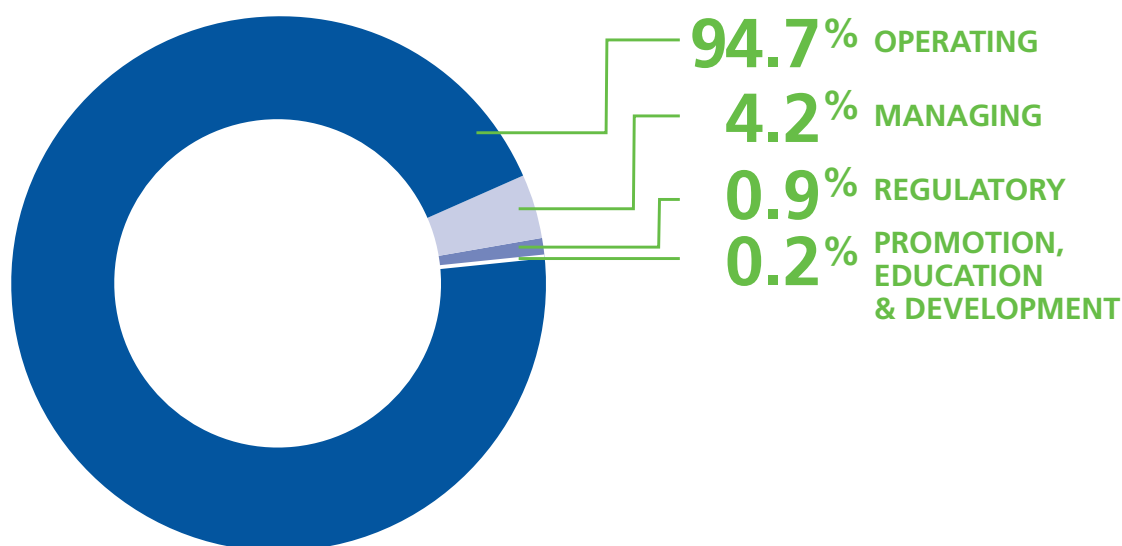
PROGRAM COST			
Province	Ontario 2014	Ontario 2013	YoY Variance %
Recycled Tonnes	884,504	900,135	-1.7%
Net Cost*	\$252,936,907	\$246,718,476	2.5%
Net Cost per Tonne	\$286	\$274	4.3%
Net Cost per Capita	\$19	\$19	1.3%
Recycled kg per Capita	66.2	68.3	-3.1%

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

Stewards and municipalities share the financial costs of the Blue Box Program. Stewards pay half of the annual net cost incurred by municipalities, plus the cost of managing the program.

Blue Box Program Expenses

Here is a breakdown of how the expenses were spent to operate the Blue Box Program:



REVENUE FROM STEWARD FEES

Year	Blue Box \$
2004	40,923,863
2005	63,504,052
2006	65,147,760
2007	61,564,749
2008	70,695,695
2009	80,635,640
2010	89,397,662
2011	92,661,176
2012	104,638,471
2013	99,757,409
2014	106,264,574
2015	111,777,857
Total	986,968,907

MHSW Program Performance

The MHSW Program collects consumer household hazardous or special waste material and manages these materials to their end-of-life by recycling or disposing of them safely in accordance with the Waste Diversion Act, 2002. In 2015, the program once again performed above target in aggregate, and again increased the number of locations where Ontarians can access drop-off facilities by 345.

An Industry Stewardship Plan (ISP) for paints and coatings became effective in 2015. The ISP is operated by Product Care Association (PCA). Stewardship Ontario worked closely with PCA to ensure a smooth handover with minimum impact on the stewards involved and for those that remain with Stewardship Ontario. In partnership with Product Care Association, we participated in a session about PCA's ISP to provide stewards with objective information about the plan and explain the process involved in leaving Stewardship Ontario to join PCA. We also met with material-specific steward groups to review program performance. Stewardship Ontario no longer manages the collection of paints and coatings, and all collection activities were assumed by Product Care Association on June 30th, 2015.

In October, Waste Diversion Ontario (WDO) also approved PCA's ISP for pesticides, solvents and fertilizers. We continue to work with PCA to ensure a smooth transition of these three materials.

AGGREGATE PERFORMANCE

Year	Aggregate of Material Collection Targets (Tonnes)	Actual Collection (Tonnes)	Percent of Target
2009	19,600	20,000	102%
2010	22,700	26,482	117%
2011	25,500	26,135	103%
2012	20,708	28,480	138%
2013	21,615	28,280	131%
2014	24,625	28,958	118%
2015	27,972	24,385	87%*

* The target for paints and coatings tonnage is based on a full year. Product Care Association's ISP for the management of paints and coatings took effect on June 30, 2015.

Accessibility

Stewardship Ontario is accountable for providing widespread accessibility to locations where residents can conveniently drop-off MHSW materials managed by the program.

There were over 345 new collection sites added in 2015. As of June 30th, 2015, Stewardship Ontario no longer managed the collection of paints and coatings. All paint collection activities were assumed by PCA as part of its ISP, and as such the remaining collection sites under R2R are those that collect batteries.

2015 PROGRAM ACCESSIBILITY BY CHANNEL

Channel – Activity	2015 Actual	2014 Actual
Municipal – Depot	88	89
Municipal – Events	328	331
Automotive – Commercial Sites	12,000+	12,000+
Automotive – Do it Yourself (DIY) Sites	883	781
Return-to-Retail	30	192
Battery Incentive Program	4,763	4,354
Provincial Parks Program	102	102
TOTAL	18,194	17,849

Performance by Material Category

The following charts summarize collection and diversion results for each of the MHSW materials managed by Stewardship Ontario for all or part of 2015.

2015 Tonnes Collected

Note: The target for paints and coatings tonnage is based on a full year. Product Care Association's ISP for the management of paints and coatings took effect on June 30, 2015.

2015 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	14,037	50%	7,019	3,280	23%	-3,739	3,432	-152
Fertilizers	40	n/a	n/a	27	68%	n/a	34	-7
Oil Containers	3,469	52%	1,804	3,730	108%	1,926	3,964	-234
Oil Filters	9,013	85%	7,661	9,150	102%	1,489	9,065	85
Paints & Coatings (incl. Aerosols)	9,360	77%	7,207	4,604	49%	-2,603	9,422	-4,818
Pesticides	66	57%	38	39	59%	1	32	7
Pressurized Containers (Non-Refillable)	604	45%	272	339	56%	67	354	-15
Pressurized Containers (Refillable)	417	98%	409	458	110%	49	610	-152
Single-Use Batteries	7,010	40%	2,804	2,330	33%	-474	1,754	576
Solvents	1,649	46%	758	427	26%	-331	291	136



2015 Tonnes Diverted

Note: The target for paints and coatings tonnage is based on a full year. Product Care Association's ISP for the management of paints and coatings took effect on June 30, 2015.

2015 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	14,037	50%	7,019	3,280	23%	-3,739	3,432	-152
Fertilizers	40	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Oil Containers	3,469	52%	1,804	3,730	108%	1,926	3,964	-234
Oil Filters	9,013	85%	7,661	9,150	102%	1,489	9,065	85
Paints & Coatings (incl. Aerosols)	9,360	54%	5,055	3,315	35%	-1,740	7,452	-4,137
Pesticides	66	n/a	–	–	n/a	n/a	n/a	n/a
Pressurized Containers (Non-Refillable)	604	45%	272	339	56%	67	354	-15
Pressurized Containers (Refillable)	417	98%	409	458	110%	49	610	-152
Single-Use Batteries	7,010	31%	2,159	2,004	29%	-155	1,508	496
Solvents	1,649	5%	82	93	6%	11	63	30



MHSW Financial Performance

The table below provides an outline of the financial performance for each of the MHSW materials managed by Stewardship Ontario.

ORANGE DROP FINANCIAL PERFORMANCE				
As at December 31, 2015				
	FEE REVENUE FROM STEWARDS	TOTAL PROGRAM COSTS	SURPLUS/ (DEFICIT)	ACCUMULATED SURPLUS/(DEFICIT)
Antifreeze	2,539,034	2,295,192	243,841	398,860
Fertilizers	299,888	55,078	244,809	55,864
Oil Containers	8,990,154	8,931,596	58,557	671,476
Oil Filters	9,517,790	8,321,717	1,196,073	1,330,147
Paints & Coatings (incl. Aerosols)	8,023,636	7,606,120	417,515	2,957,175
Pesticides	301,650	297,152	4,497	112,116
Pressurized Containers (Non-Refillable)	935,400	882,402	52,998	363,977
Pressurized Containers (Refillable)	221,471	229,092	(7,622)	(7,969)
Single-Use Batteries	8,629,797	9,228,908	(599,112)	873,995
Solvents	1,281,107	1,217,529	63,577	644,344
TOTAL	40,739,927	39,064,786	1,675,133	7,399,985

The MHSW Program is fully funded by industry stewards who contribute towards the cost of managing MHSW materials.

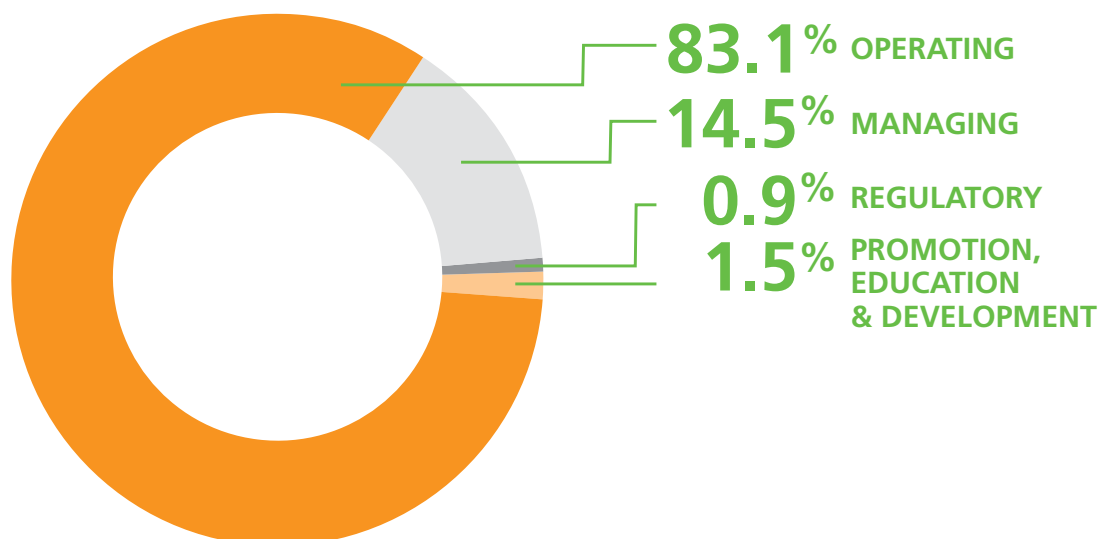


REVENUE FROM STEWARD FEES

Year	Orange Drop \$
2008	11,695,939
2009	25,876,102
2010	39,429,587
2011	38,569,208
2012	49,170,731
2013	39,180,369
2014	43,785,842
2015	40,739,927
Total	288,447,705

2015 MHSW Program Expenses: 40.7M

The graphic below shows how MHSW expenses were split in 2015:







GOVERNANCE

2015 SO Board of Directors

Stewardship Ontario's governance is established by O.reg.33/08 under the Waste Diversion Act. Our Board comprises 14 directors, 12 of whom are elected by qualified voting organizations, whose members are stewards, and two independent directors, appointed by the elected directors. During 2015, there were nine appointed members, two independents and three board vacancies.

Stewardship Ontario's Board represents a balance of skills, knowledge and experience, while at the same time reflecting appropriate sectoral balance.

- **Debbie Baxter (Board Chair)**, VP, Corporate Real Estate Financial Advisory, Deloitte (Independent Director)
- **Diane Brisebois**, President and Chief Executive Officer, Retail Council of Canada (RCC)
- **Robert Chant**, SVP, Corporate Affairs and Communication, Loblaw Companies Ltd.
- **Don Cousens**, Principal, Counsel Public Affairs Inc. (Independent Director)
- **John Coyne**, VP, Legal & External Affairs, Unilever Canada Inc.
- **Calla Farn**, VP, Government and Public Relations and Corporate Affairs, McCain Foods
- **Sylvain Mayrand**, Executive Vice President and General Manager, Operations, A. Lassonde Inc.
- **Brian Prendergast**, C. Dir. Senior VP, Consumer, Recochem Inc.
- **Mark Reed**, Director of Sales – National Accounts, Shell Lubricants
- **Anne Tennier**, Vice President of Environmental Sustainability, Maple Leaf Foods Inc.
- **Scott Tudor**, Director, Sustainability, Sobeys Inc.

* Gordon Meyer resigned his position in June 2015

For more information about Stewardship Ontario's Board of Directors and governance structure, please visit <http://stewardshipontario.ca/about-us/board-of-directors/>.



2015 Stewardship Ontario Board Meeting Attendance

Board Member	March 24, 2015	June 18, 2015	September 24, 2015	December 17, 2015
Debbie Baxter	Yes	Yes	Yes	Yes
Diane Brisebois (Chair)			Yes	Yes
Robert Chant	Yes	Yes		Yes
Don Cousens	Yes	Yes	Yes	Yes
John Coyne	Yes	Yes	Yes	Yes
Calla Farn	Yes	Yes	Yes	Yes
Sylvain Mayrand	Yes	Yes	Yes	Yes
Gordon Meyer	Yes	Yes		
Brian Prendergast	Yes	Yes	Yes	Yes
Mark Reed	Yes		Yes	Yes
Anne Tennier		Yes		Yes
Scott Tudor	Yes	Yes	Yes	Yes

Absent

Not Applicable

Debbie Baxter – Voted in as Chair in March 2015

John Coyne – Resigned as Chair in March 2015

Gordon Meyer – Resigned in June 2015

2015 Board Committees and Attendance

FINANCE, AUDIT & PERFORMANCE

The Finance, Audit & Performance Committee oversees the quarterly financial and diversion performance of Stewardship Ontario, ensuring a risk management plan is developed and monitoring mitigation measures. The committee also instructs and meets the auditors, without the presence of management, at least once per year.

Board Member	March 12, 2015	June 4, 2015	September 10, 2015	December 3, 2015
Debbie Baxter	Yes			
Diane Brisebois	Yes		Yes	Yes
John Coyne				Yes
Calla Farn (Chair)		Yes	Yes	Yes
Sylvain Mayrand	Yes	Yes	Yes	Yes
Gord Meyer	Yes	Yes		

Absent

Not Applicable

Debbie Baxter – Became Chair of SO Board of Directors in March 2015

John Coyne – Joined the Committee in June 2015 but due to an administrative error at Stewardship Ontario his first meeting was December 2015

Calla Farn – Appointed as Chair in June 2015

Gord Meyer – Retired from the Board in June 2015

Governance, Nominating & Risk Committee

The Governance, Nominating & Risk 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. This Committee oversees the Board, Committee and Director evaluation process annually and brings the Board's attention to matters that need to be addressed to foster best governance practices.

Board Member	January 9, 2015	January 23, 2015	December 2, 2015
Don Cousens	Yes	Yes	Yes
Calla Farn			
Brian Prendergast (Chair)	Yes	Yes	Yes
Mark Reed	Yes	Yes	Yes
Scott Tudor	Yes		Yes

Absent

Not Applicable

Calla Farn – Left the Committee to join the FA&P Committee in June 2015

Regulatory Affairs Committee

The Regulatory Affairs Committee provides advice and support to Management in regard to Stewardship Ontario's stakeholder relations.

Members:

Don Cousens (Chair)

Robert Chant

Calla Farn

Anne Tennier

There were no formal meetings called during the 2015 year.



FINANCIALS

Independent Auditor's Report



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BDO Canada LLP
TD Bank Tower

66 Wellington Street West
Suite 3600, PO Box 131
Toronto ON M5K 1H1 Canada

TO THE MEMBERS OF STEWARDSHIP ONTARIO

We have audited the accompanying financial statements of Stewardship Ontario, which comprise the balance sheet as at December 31, 2015 and the statements of changes in net assets, operations and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian 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.

AUDITOR'S RESPONSIBILITY

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or





error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

OPINION

In our opinion, these financial statements present fairly, in all material respects, the financial position of Stewardship Ontario as at December 31, 2015, and the results of its operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations..

BDO Canada LLP

Chartered Professional Accountants, Licensed Public Accountants
March 24, 2016
Toronto, Ontario

STEWARDSHIP ONTARIO

BALANCE SHEET

December 31	2015	2014
ASSETS		
Current		
Cash	\$27,098,855	\$4,210,303
Investments (Note 2)	20,086,796	33,158,157
Accounts and other receivables (Note 3)	14,811,812	33,894,076
Loan receivable (Note 4)	330,000	330,000
Prepaid expenses and deposits	15,444	21,060
	62,342,907	71,613,596
Capital assets (Note 5)	86,920	162,039
Investments (Note 2)	39,178,621	38,775,903
Loan receivable (Note 4)	660,000	990,000
Convertible loans receivable (Note 6)	–	1,500,000
	\$102,268,448	\$113,041,538

LIABILITIES AND NET ASSETS

Current		
Accounts payable and accrued liabilities (Note 4)	\$32,043,519	40,764,028
Deferred revenue (Note 7)	9,805,560	9,805,560
CIF and E&E funds (Note 8)	28,011,710	30,182,336
	69,860,789	80,751,924
Net Assets		
Invested in capital assets	86,920	162,039
Unrestricted	21,670,137	20,372,953
Internally restricted (Note 9)	10,650,602	11,754,622
	32,407,659	32,289,614
	\$102,268,448	\$113,041,538

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, 2015

	Invested in Capital Assets	Unrestricted	Internally Restricted	2015 Total
Balance, beginning of year	\$162,039	\$20,372,953	\$11,754,622	\$32,289,614
Excess (deficiency) of revenue over expenses for the year	(75,119)	1,297,184	(1,104,020)	118,045
Balance, end of year	\$ 86,920	\$21,670,137	\$10,650,602	\$32,407,659

FOR THE YEAR ENDED DECEMBER 31, 2014

	Invested in Capital Assets	Unrestricted	Internally Restricted	2014 Total
Balance, beginning of year	\$263,505	\$23,149,311	\$18,734,943	\$42,147,759
Deficiency of revenue over expenses for the year	(101,466)	(2,776,358)	(6,980,321)	(9,858,145)
Balance, end of year	\$162,039	\$20,372,953	\$11,754,622	\$32,289,614

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

STEWARDSHIP ONTARIO

STATEMENT OF OPERATIONS

FOR THE YEAR ENDED DECEMBER 31	2015	2014
Revenue		
Blue Box program steward fees	\$111,777,857	\$106,264,574
MHSW program steward fees	40,739,927	43,785,799
Investment income (Note 10)	1,236,184	795,627
	153,753,968	150,846,000
Expenses		
Blue Box Program		
Municipal Transfer Payments	105,641,403	104,449,367
Continuous Improvement Fund (Note 13(c))	1,951,562	3,307,279
Research and development	264,341	914,471
Promotion and education	3,729	5,500
	107,861,035	108,676,617
MHSW Program		
Direct material costs	32,448,085	35,678,441
Promotion and education	590,591	1,197,078
	33,038,676	36,875,519
Common costs		
Program management (Notes 4 and 11)	11,374,752	13,498,961
Waste Diversion Ontario and Ministry of Environment charges (Note 12)	1,361,460	1,653,048
	12,736,212	15,152,009
Total expenses	153,635,923	160,704,145
Excess (deficiency) of revenue over expenses for the year	\$118,045	\$(9,858,145)

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

STEWARDSHIP ONTARIO

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31	2015	2014
Cash provided by (used in)		
Operating activities		
Excess (deficiency) of revenue over expenses for the year	\$118,045	\$(9,858,145)
Adjustments to reconcile excess (deficiency) of revenue over expenses for the year to cash provided by operating activities		
Amortization of capital assets	75,119	101,466
Non-cash component of investment income	359,809	134,824
Allowance for investment in common shares	–	500,000
Changes in non-cash working capital balances:		
Accounts and other receivables	19,082,264	(7,818,032)
Prepaid expenses and deposits	5,616	283,327
Long term receivables	–	1,551,704
Accounts payable and accrued liabilities	(8,720,509)	6,129,260
CIF and E&E funds	(2,170,626)	(2,663,133)
	8,749,718	(11,638,729)
Investing activities		
Purchase of investments	–	(21,500,000)
Proceeds from investments	12,308,834	30,053,470
Repayments from loan receivable	330,000	330,000
Repayments from convertible loans receivable	1,500,000	–
	14,138,834	8,883,470
Increase (decrease) in cash during the year	22,888,552	(2,755,259)
Cash, beginning of year	4,210,303	6,965,562
Cash, end of year	\$27,098,855	\$4,210,303

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

STEWARDSHIP ONTARIO

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015

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

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.

(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.

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) CAPITAL ASSETS

Property, plant and equipment is recorded at cost less accumulated amortization and is amortized on the following basis:

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

(F) IMPAIRMENT OF LONG-LIVED ASSETS

When a long-lived asset no longer has any long-term service potential to the Organization, the excess of its net carrying amount over any residual value is recognized as an expense in the statement of operations. Any unamortized deferred contribution amount related to the long-lived asset is recognized in revenue in the statement of operations, provided that all restrictions have been complied with.

(G) 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, 2015

2. INVESTMENTS

	2015	2014
Cash held with broker	\$1,169,102	\$638,634
Fixed income	58,096,315	71,295,426
Common shares, private company	500,000	500,000
Impairment on common shares of private company	(500,000)	(500,000)
	59,265,417	71,934,060
Less: Current portion	20,086,796	33,158,157
	39,178,621	38,775,903

Fixed income investments bear interest at 1.70% to 5.68% (2014 – 1.25% to 5.68%) and mature between June 2016 and August 2020 (2014 – February 2015 and April 2020). The decrease in market value of investments for the year ended December 31, 2015 amounted to \$702,853 (2014 – \$624,969) which is included in investment income (Note 10).

The company is privately owned with no common share prices quoted in an active market. In 2014, the Organization recognized an impairment loss on the common shares of the private company of \$500,000 as there is uncertainty relating to the recoverability which was included in investment income (Note 10).

3. ACCOUNTS AND OTHER RECEIVABLES

	2015	2014
Blue Box and MHSW program steward fees	\$14,821,974	\$31,553,225
MHSW deficit recovery fees	–	2,273,323
Other	28,623	153,974
Allowance for doubtful accounts	(38,785)	(86,446)
	\$14,811,812	\$33,894,076

4. SIGNIFICANT CONTRACTS AND LOAN RECEIVABLE

The Organization entered into an agreement with Canadian Stewardship Services Alliance Inc. (“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 \$8,224,645 (2014 – \$8,554,941) for these services. Included in accounts payable and accrued liabilities is \$846,302 (2014 – \$1,336,052) 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 17% (2014 – 25%) of the Organization's board membership.

The loan receivable is a loan to CSSA that bears interest at the bank prime rate and is repayable in five annual principal payments of \$330,000. The Organization received interest of \$34,926 (2014 – \$47,588).

	2015	2014
Loan receivable	\$990,000	\$1,320,000
Less: Current portion	330,000	330,000
	\$660,000	\$990,000

5. CAPITAL ASSETS

	2015		2014	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Computer equipment	\$106,688	\$102,675	\$106,688	\$95,222
Furniture and fixtures	459,785	376,878	459,785	309,212
	566,473	479,553	566,473	404,434
Net Carrying Amount		\$86,920		\$162,039

6. CONVERTIBLE LOANS RECEIVABLE

	2015	2014
Convertible loan, private company	\$ –	1,500,000
Convertible loan, private company	1,500,000	1,500,000
Allowance for convertible loans	(1,500,000)	(1,500,000)
	\$ –	1,500,000

During 2012, the Organization provided a \$1,500,000 convertible five year loan that bears interest at Bank of Canada prime rate plus 2% which is accrued and compounded monthly and is payable at the maturity date. The loan was convertible into common shares of the company at a discounted rate under certain circumstances or at the option of the Organization at the maturity date. The loan was to a private company with no common share prices quoted in an active market. The loan was repaid in full in 2015.

STEWARDSHIP ONTARIO

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015

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.

During 2013, the Organization recognized an allowance for doubtful loans of \$1,500,000 relating to the convertible loan as there is uncertainty relating to the collectability of the balance owing. In 2015, the Organization reassessed the collectability of the convertible loan and determined the \$1,500,000 allowance is still required.

7. DEFERRED REVENUE

	2015	2014
Blue Box Program Glass Market Development Fund	\$ 666,017	\$ 666,017
MHSW Program Deferred Revenue	9,139,543	9,139,543
	\$ 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 13(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.

8. CIF AND E&E FUNDS

	2015	2014
Continuous Improvement Fund ("CIF")	\$ 28,011,710	\$ 29,216,829
Effectiveness & Efficiency Fund ("E&E Fund")	–	965,507
	\$ 28,011,710	\$ 30,182,336

Each year, the Organization is directed to hold back a portion of the municipal blue box obligation for the CIF; see Note 13(c) 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 Continuous Improvement Fund ("CIF") received net contributions of \$2,991,059 (2014 – \$3,621,306) and spent \$4,196,178 (2014 – \$6,284,486) on continuous

improvement activities. The funds held by the Organization for the CIF are included in investments.

Details regarding the E&E Fund are explained in Note 13(b).

9. INTERNALLY RESTRICTED NET ASSETS

	2015	2014
Sustaining Fund	\$3,500,000	\$3,500,000
Plastic Market Development Fund	5,027,995	5,162,962
Blue Box Fund	1,285,409	1,649,520
Fibre Market Development Fund	–	109,155
Battery Surplus Fund	837,198	1,332,985
	\$10,650,602	\$11,754,622

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 a 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. During the year, \$134,967 (2014 \$892,586) was spent on plastics market development activities.

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, \$364,111 (2014 – \$Nil) was spent on these types of Blue Box activities.

The directors authorized the establishment of the Fibre Market Development Fund to develop markets to support additional recycling and efficiency of fibres recycled in the Blue Box Program and internally restricted funds for this purpose. During the year, \$109,155 (2014 – \$386,285) was spent on fibre market development activities.

The directors authorized the establishment of the Battery Surplus Fund to reflect over contributions in this category totaling \$2,362,730 and on December 31, 2014 internally restricted \$1,839,646. The Battery Surplus Fund is used to promote the safe disposition of batteries. During the year, \$495,787 (2014 – \$506,661) was spent on battery promotional and educational activities.

10. INVESTMENT INCOME

	2015	2014
Interest income	\$2,502,289	\$2,451,258
Loss on sale of investments	(371,110)	(391,888)
Impairment on common shares in private company (Note 2)	–	(500,000)
	2,131,179	1,559,370
Adjustment to fair value	(702,853)	(624,969)
Investment expenses	(192,142)	(138,774)
	\$1,236,184	\$795,627

STEWARDSHIP ONTARIO

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015

11. ARBITRATION COSTS

Included in Program Management are legal and other costs relating to legal disputes that were subject to arbitration of \$Nil (2014 – \$2,791,507). These costs are unusual in nature and non-recurring.

12. WASTE DIVERSION ONTARIO

The WDO caused the Organization to be created under the WDA to act as an IFO for waste diversion programs (Note 1). Under the Blue Box and MHSW program agreements, the Organization is required to collect fees to cover both program operations and the program specific and common costs of WDO that relate to program oversight.

13. 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, 2015, the Organization has spent \$2,235,508 and the remaining balance is restricted for glass market development projects.

(B) EFFECTIVENESS & EFFICIENCY FUND ("E&E FUND")

The intent of the E&E Fund was to provide support to Ontario municipalities to help reduce the cost of their Blue Box recycling programs and increase the tonnes recovered. This initiative was part of the Blue Box Program Plan that was created as a result of Ontario's Waste Diversion Act, 2002, and an integral part of the plan to help Ontario achieve the Minister's recycling target of 60% diversion of Blue Box waste by 2008 and to maximize efficiency of individual Blue Box municipal recycling programs and of the system as a whole. As of January 1, 2008, the fund was collapsed and there still remains funds that are unspent. The E&E Fund contributions were fully committed by the end of 2008, and through 2009, approved E&E Fund projects continued to be implemented. In 2009, the Municipal Industry Program Committee ("MIPC") agreed that unspent E&E Fund Contributions would be transferred to the Continuous Improvement Fund ("CIF") as projects were completed. During the year, the remaining balance of \$965,507 was transferred to the CIF.

(C) CONTINUOUS IMPROVEMENT FUND ("CIF")

The CIF provides grants and loans to municipalities to execute projects that will increase the efficiency of municipal Blue Box recycling and help boost system effectiveness. The CIF 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. Currently,

5% of the annual municipal obligation funded by the Organization's stewards is passed along to the CIF each year and any unused amounts are reflected in Deferred Revenue (Note 7). As of December 31, 2015, approved project funding and related commitments for the CIF amounted to approximately \$21,399,655 of the total fund balance of \$28,011,710.

(D) REALTY LEASE AGREEMENTS

Under the terms of lease agreements, the Organization is committed to pay basic rent plus operating costs approximately as follows:

2016	360,000
2017	160,700
	\$ 520,700

14. FINANCIAL INSTRUMENT RISK EXPOSURE AND MANAGEMENT

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

(A) CREDIT RISK:

Financial instruments potentially exposed to credit risk include cash, investments, accounts and other receivables, long term receivables, loan receivable and convertible loans 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, loans receivable and long term 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 convertible receivables, accounts receivables and loans receivable is approximately \$1,538,785 (2014 – \$1,586,446).

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.

STEWARDSHIP ONTARIO

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015

14. FINANCIAL INSTRUMENT RISK EXPOSURE AND MANAGEMENT – (CONTINUED)

(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)).

(D) MARKET RISK:

The Organization has invested in common shares and convertible loans receivable which are subject to market value risk. The investments are in private companies with no common share prices quoted in an active market.

15. CONTINGENCIES

The Organization has been named as a defendant in a claim arising in the ordinary course of business. At this time, the outcome of the claim is not determinable and therefore an estimate of the Organization's liability, if any, cannot be made. Losses, if any, will be accounted for in the period they are determined.

16. COMPARATIVE FIGURES

Certain comparative amounts have been reclassified to conform with the current year presentation.



STEWARDSHIP ONTARIO

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