



Thinking
beyond
the box

Stewardship Ontario

2021 ANNUAL REPORT

About Stewardship Ontario

Stewardship Ontario is a not-for-profit organization financed by the businesses that supply designated products, packaging and printed paper to the Ontario market. In partnership with Ontario municipalities, we have been providing financing to Ontario's Blue Box curbside recycling program for printed paper and packaging since 2004.

Between 2008 and 2021, Stewardship Ontario also financed and operated the Orange Drop recycling and safe disposal program (known as the MHSW Program) for certain hazardous or special wastes such as batteries, household special wastes and other products that don't belong in landfills.

The Ontario government is implementing a new approach to resource recovery in which businesses will be fully responsible for financing and operating activities for household recyclables and special wastes. The MHSW Program ceased operations in September 2021, as planned, when this new producer responsibility model was applied to materials previously covered by the MHSW program. The current Blue Box Program is also transitioning to full producer responsibility, with the first Ontario communities due to shift to the new framework in the second half of 2023. The Blue Box Program is scheduled to carry through to the end of 2025, after which it – and Stewardship Ontario – will be fully wound up.

Table of Contents

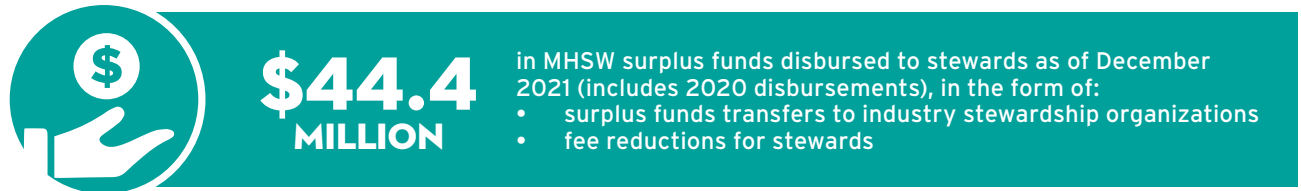
- 4 Year in Review
- 5 Blue Box Program
- 12 MHSW Program
- 16 Governance
- 17 Financial Statements

2021 Milestones

Blue Box Program (DATA FROM 2020)



MHSW Program



Year in Review

Ontario's recycling programs and the Stewardship Ontario organization are adapting to a new era of resource recovery in the province.

Stewardship Ontario is making the required financial, operational and governance changes to wind up its two main programs: the Municipal Hazardous or Special Waste (MHSW Program), which ceased operations on September 30, 2021, and the iconic Blue Box Program, which is scheduled to complete its transition on December 31, 2025.

These developments pave the way for businesses to assume responsibility for managing hazardous or special waste, and to take over full financial and operational responsibility for the Blue Box recycling system under the Resource Recovery and Circular Economy Act (RRCEA) and as detailed in the relevant regulations.

The Hazardous and Special Products Regulation introduced in 2021 makes producers of automotive materials, solvents, paints and coatings, pesticides, fertilizers, mercury-containing devices and pressurized containers, accountable for their products and packaging and sets requirements for resource recovery. While the MHSW Program ceased operations, Stewardship Ontario worked with service providers and stewards to help them finalize arrangements related to the program termination.

The Blue Box Program, Ontario's pioneering curbside recycling program, is in the midst of a multi-year change to full producer responsibility. Stewardship Ontario's goal for the Blue Box Transition Plan is to maintain as much operational stability as possible, and minimize the amount of work it requires of stewards, in order to enable all stakeholders to focus on the future and prepare for the implementation of full producer responsibility.

Stewardship Ontario has also adjusted its internal structures to align with its wind-up focus. At the management level, Lyle Clarke succeeded Gemma Zecchini as Executive Director in 2021. Gemma departed following successful design and approval of the wind-up plans for both Blue Box and MHSW programs. Lyle has extensive experience in the organization through previous leadership and board roles.

On June 11, 2021, the Stewardship Ontario Board announced the transition of the organization's governance to an Administrator, Susan Lo, who was appointed by the Resource Productivity and Recovery Authority (RPRA). Susan has wide-ranging government experience in the environment, energy and transportation portfolios. As Administrator, she has the power and

authority of the previous board and oversees Stewardship Ontario's management team during the transition period.

The governance change was a key part of the Board's plan for an orderly wind-up of both programs. To support this changeover, Stewardship Ontario created a Steward Advisory Group of industry representatives to advise management and the Administrator on the Blue Box Program transition. The Steward Advisory Group meets quarterly and is facilitated by Scott Tudor, a professional engineer and former member of the Stewardship Ontario Board.

Stewardship Ontario, alongside its partners, is working diligently to execute the Blue Box Transition Plan. To this end, Stewardship Ontario is pleased to highlight two significant achievements in 2021:

- Engaging successfully with municipal representatives to agree how the steward obligation should be determined through to the end of the transition process, thereby avoiding any time consuming and potentially costly disputes.
- Initiating a major change to the way its fees will be set through the course of transition, eliminating the need for most stewards to report data to Stewardship Ontario and avoiding the potential costly, difficult and confusing process of reporting data to both Stewardship Ontario under the Blue Box Program Plan and to RPRA under the RRCEA.

Stewardship Ontario is committed to making the transition process as easy as possible for stewards by reducing the burden Stewardship Ontario places on them, allowing them to focus on their new responsibilities under the RRCEA. "Simplified fee setting" in particular represented a very substantive departure from the manner in which we have set fees for almost 20 years. While we knew eliminating the need for most stewards to report supply data to Stewardship Ontario would be welcome, researching, consulting and planning for the implementation of "simplified fee setting" in a manner that would continue to be equitable and fair for the steward community was far from simple. We trust that stewards will benefit from our determination to make progress in this direction in 2021.

Final accounting will take place to close the books on the MHSW Program in 2022. All updates related to these workstreams will be available on the Stewardship Ontario website. There have been many changes to digest, and Stewardship Ontario appreciates the guidance and support of the previous Board members, as well as the many stakeholders working to implement this once-in-a-generation transformation.

Blue Box Program

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

Program costs are currently shared equally between Ontario municipalities and industry stewards – the registered businesses that supply packaging and printed paper to Ontario residents. This shared-cost model is changing as the Blue Box Program transitions to a full producer responsibility framework.

Blue Box Transition - Background

The regulatory transition of the Blue Box Program, which will make individual producers responsible for both the funding and operation of residential recycling in the province, includes the wind up of Stewardship Ontario as an organization. The regulatory change was initiated by the Minister of Environment, Conservation and Parks on August 15, 2019.

Stewardship Ontario consulted extensively with stakeholders to develop the Blue Box Transition Plan. This included webinars in June 2020 with stewards, municipalities, First Nations communities, the waste management industry and environmental non-government organizations, followed by additional rounds of consultations in October and November 2020.

In December 2020, Stewardship Ontario was advised that the Blue Box Transition Plan it submitted to RPRA was approved, with conditions. That transition plan is currently being implemented. The first Ontario communities are scheduled to be transitioned to the new framework beginning July 1, 2023, with the entire province operating under the new framework by December 31, 2025.

Blue Box Transition – 2021 Updates

- **RPRA approved a revised Conflict of Interest Plan on March 31, 2021**, to mitigate possible conflicts and undue commercial advantage during the transition period. The approved plan outlined three key measures: policies related to the segregation of select Canadian Stewardship Services Alliance (CSSA) staff and prohibitions on solicitation of Stewardship Ontario stewards; attestations and due diligence reporting to ensure compliance with the new policies and the existing CSSA confidentiality policy; and an amendment to the Code of Conduct to apply to all Stewardship Ontario staff.
- **Stewardship Ontario's relationship with the CSSA changed** with a July 2021 announcement that CSSA's assets would be acquired by Resource Recovery Alliance Inc. (RRA) who was intending to continue the business of CSSA and offer services as a Producer Responsibility Organization (PRO) in Ontario. RRA is owned by GFL, a waste management company. Stewardship Ontario established new requirements over CSSA's access to, and use of, Stewardship Ontario's confidential data while it considered a request to transfer its services contract to RRA. An independent review conducted by BDO confirmed CSSA's compliance with its confidentiality obligations to date, and considered what other measures, in addition to those established following the July announcement, Stewardship Ontario should consider before providing its consent. A plan was prepared setting out the conditions under which Stewardship Ontario would provide consent, and consent was subsequently granted, with RPRA approval, subject to conditions. In January 2022, Stewardship Ontario submitted a comprehensive plan for data security and confidentiality encompassing all such measures now in place.

- **Stewardship Ontario reached an agreement with Ontario municipalities** to jointly recommend a simpler approach to determining the annual steward obligation that will carry through to the end of the transition process, and which resolves all outstanding questions and concerns raised in the past by both parties about the process of determining the steward obligation. The joint recommendation was implemented by RPRA.
- **Stewardship Ontario also submitted a plan for promoting material recovery within the Blue Box program** through the course of transition, as required by the RPRA Board of Directors when the Transition Plan was approved. This plan was revised and resubmitted in January 2022.
- **Stewardship Ontario consulted on proposed amendments to simplify the fee setting methodology for 2023-2025.** In October 2021, Stewardship Ontario proposed a significant change to the way it sets annual Blue Box fees. The proposal, once approved, eliminates the need for stewards to report supply-to-market data, reducing the administrative burden and program management costs. This simplified approach to fee setting was subject to a thorough analysis of trends in material recycling costs, fee rates and steward invoices. After reaching out to a number of knowledgeable outside advisors and members of the Steward Advisory Committee, the proposal was set out in a discussion paper distributed to all stewards, and stewards were surveyed on the proposal and took part in webinars in January 2022. The proposal was submitted to RPRA in late January 2022 and approved by RPRA with conditions in March 2022. The conditions were satisfied by Stewardship Ontario and the Rules required to give effect to the change were approved by RPRA in May 2022.
- **Accelerated use of reserves.** After carefully considering the future costs of the Blue Box Transition through to wind up, Stewardship Ontario allocated \$10 million from its reserves to mitigate steward fee increases for 2022, which is likely to be the year that steward fees reach their peak. Stewardship Ontario routinely reviews its reserves, using both internal and external expertise to set appropriate levels, continuing with its conservative approach to managing risk.

Stewardship Ontario is implementing the Blue Box Transition Plan as quickly and as efficiently as possible, to minimize any burden or disruption for stewards.

Blue Box Program Activities in 2021

There were 1,800 stewards registered with Stewardship Ontario's Blue Box Program as of December 31, 2021. They included brand owners (companies who hold registered trademarks associated with the designated packaging or printed materials), first importers (Ontario companies, mostly retailers, that are the first to take ownership, possession or control of products into Ontario) and franchisors (the responsible stewards for all designated materials and that is supplied by the entire Ontario franchise system) who supply designated materials to consumers.

Stewards pay fees based on the quantities and types of designated materials they supply to residential consumers to meet the annual funding requirement determined by RPRA from verified municipal cost data. In 2021, stewards contributed \$147.5 million to the Blue Box Program, an increase from \$140.3 million in 2020.

In 2021, a total of 250 Ontario communities participated in the Blue Box Program. These communities manage, and in some cases directly handle, the collection, sorting and marketing of materials and educate residents about accepted materials.

With the pending program transition, Stewardship Ontario is not participating in any further market development projects. However, work continued during the year on residential waste composition studies as well as Material Recovery Facility (MRF) material composition and density studies. These studies provide data and insight for both industry and municipalities about the changing mix of materials in the Blue Box stream, supporting planning for program requirements and resident communications.

Blue Box Promotion and Education

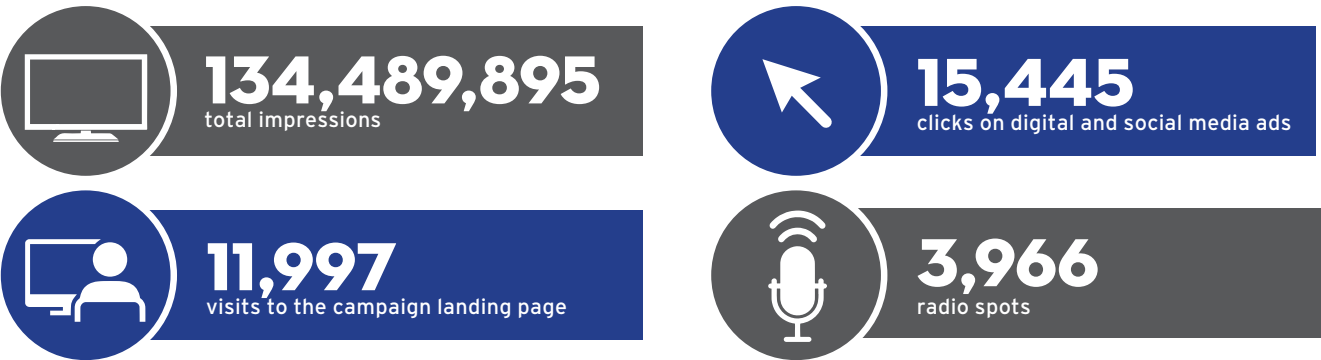
Stewardship Ontario continued to support municipalities' efforts to reduce contamination in residential Blue Boxes by creating a new anti-contamination campaign. The campaign focused on educating residents about the appropriate items that can go into their Blue Boxes. This campaign ran for eight weeks from May 29 to July 18, 2021. A holiday version of the campaign ran for five weeks in late November and December 2021.

Overall, the 2021 campaign generated a total of 134.5 million impressions. This is in addition to the extensive programs of promotion and education delivered directly by municipalities and funded in part by stewards under the Program Plan.



QUICK FACTS

“Let’s Do It Right” contamination reduction campaign results:



SOCIAL MEDIA

Stewardship Ontario continued to engage residents on Twitter by providing useful recycling tips and reminders in 2021. The Twitter posts generated over 48,165 impressions, 611 engagements and 73 link clicks in 2021, excluding the campaign engagement numbers above.

FUTURE PROMOTION & EDUCATION

During 2021, Stewardship Ontario also initiated a review of its promotion and education program to ensure that it provides value to the current Blue Box programs during the transition period.

Blue Box Program Performance

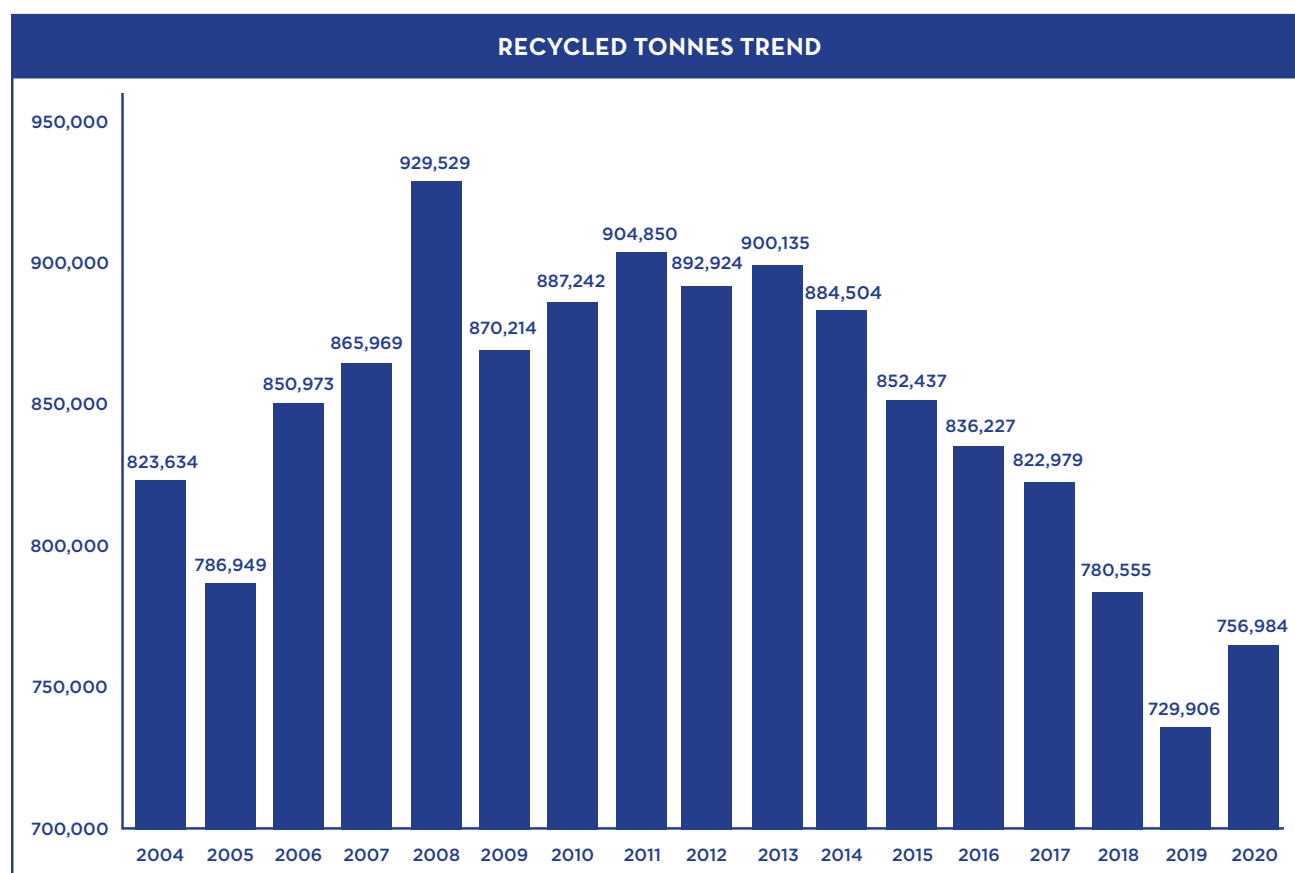
(NOTE PERFORMANCE DATA IS FROM 2020)

The Blue Box Program substantially met the 60% government-mandated target recycling rate in 2020, the most recent year for which data is available. The 2020 recycling rate was 59.9%, up from 57.3% in 2019. This year-over-year increase reversed a steady downward trend over the previous five years, in both the rate and recycled volumes.

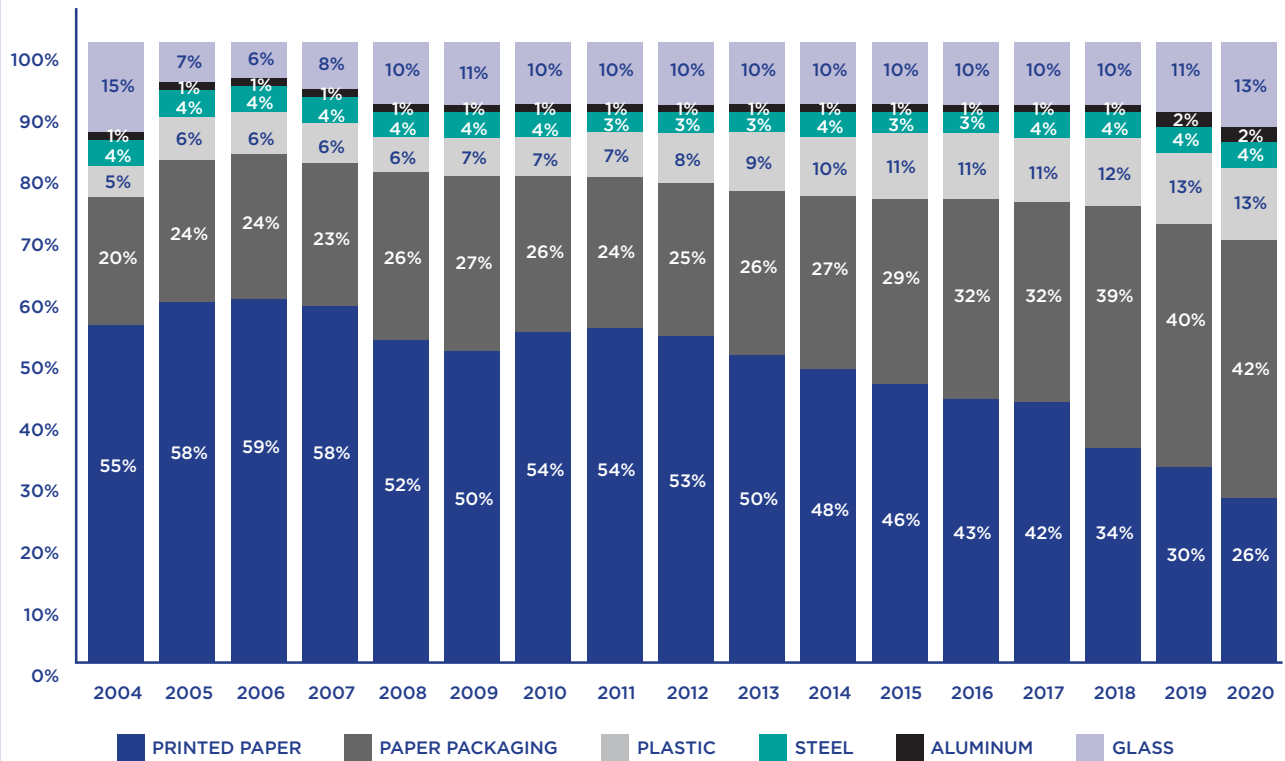
Recycled tonnes increased 3.7% year over year to 756,984 tonnes, while generated tonnes dipped 0.9% to 1.263 million tonnes.

With an increase in the Ontario population and number of households served by the Blue Box Program in 2020, the number of recycled kilograms per capita climbed 2.1%, to 56.4 kg.

Access to recycling programs remained high in 2020 with 95% of Ontario households having access.



MATERIAL COMPOSITION



RECYCLING AND ACCESSIBILITY IN ONTARIO

RECYCLING PERFORMANCE			
METRIC	2020	2019	YOY VARIANCE %
Recycled Tonnes	756,984	729,906	3.7%
Generated Tonnes	1,263,401	1,274,310	-0.9%
Recycling Rate	59.9%	57.3%	2.6%
Provincial Recycling Target	60.0%	60.0%	--
Population Served by Program	13,412,332	13,205,235	1.6%
Recycled kg per Capita	56.4	55.3	2.1%
# of Households Served	5,374,308	5,333,161	0.8%
% of Households with Access to Program	94.8%	94.0%	0.7%

Blue Box Financial Performance

The overall net cost of the Blue Box recycling system for 2020 was \$358.8 million, an increase of 6.7% from 2019.

Net cost includes supply chain costs, commodity revenues, promotion and education costs, market development and program management costs.

The year-over-year increase was mainly due to higher processing contract prices, along with reduced commodity revenue, as reduced global markets for waste materials continue to influence prices. As a result, net cost per tonne and per capita also increased from the previous year.

As noted in our previous annual reports, the program uses a three-year rolling average for commodity revenue, so the effects of significant commodity market declines and resultant revenue decreases remain a factor despite recent increases in market prices.

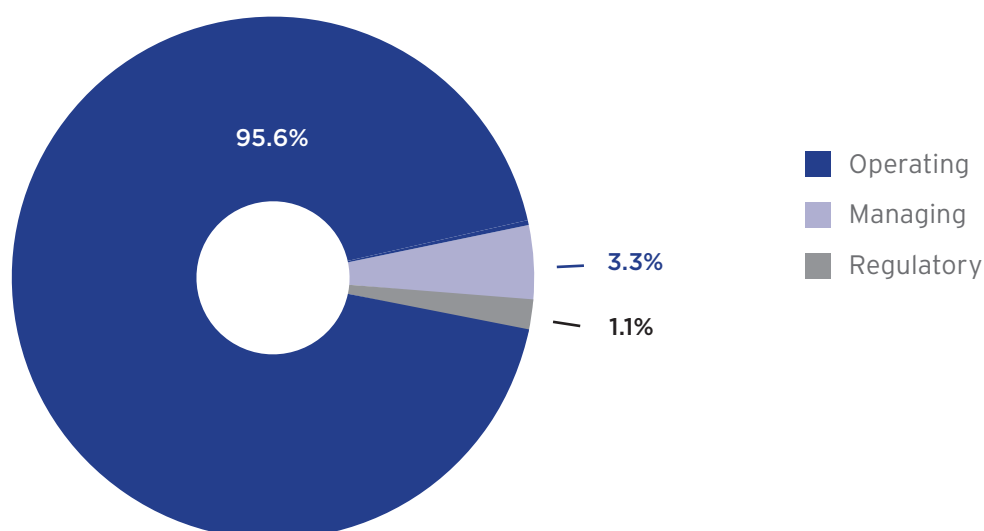
PROGRAM COST PERFORMANCE

METRIC	2020	2019	YOY VARIANCE %
Recycled Tonnes	756,984	729,906	3.7%
Net Cost *	\$358,836,370	\$336,293,874	6.7%
Net Cost per Tonne	\$474	\$461	2.9%
Net Cost per Capita	\$27	\$25	5.1%

* Net cost includes 100% of supply chain costs, commodity revenues, P&E, regulatory, market development and program management costs

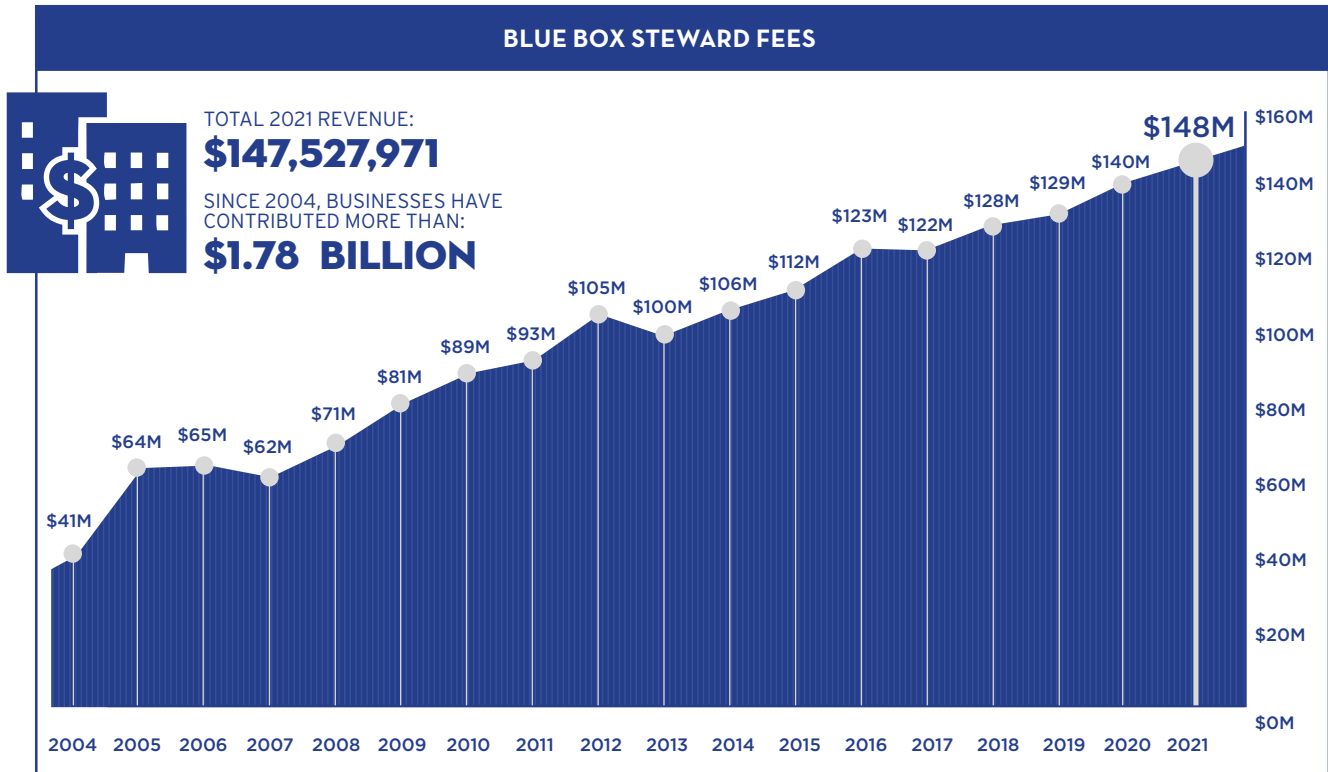
PROGRAM EXPENSES

This graphic shows a breakdown of Stewardship Ontario expenses in 2020, which are based on the payment obligation to municipalities as determined by RPRA plus the cost of managing the program.



REVENUE FROM STEWARD FEES

Revenue from Blue Box steward fees for 2021 totalled \$147.5 million, an increase of 5% from 2020. The increase reflects the rising costs to operate the program, largely due to lower commodity revenue.



MHSW (Orange Drop) Program

The Municipal Hazardous or Special Waste (MHSW) Program, known to consumers as Orange Drop, was designed to collect household hazardous or special waste and manage these materials at their end of life, ensuring they were recycled or disposed of safely.

Over the past several years, management of many MHSW materials has shifted to plans operated by various Industry Stewardship Organizations (ISOs) under approved program plans. For the first nine months of 2021, Stewardship Ontario directly oversaw end-of-life support for pressurized containers that previously held propane, oxygen or other gases. The MHSW Program ceased operations on September 30, 2021, per the MHSW Wind Up Plan developed by Stewardship Ontario and approved by RPRA.

Program Wind Up - Background

RPRA approved a revised MHSW Wind Up Plan with conditions in December 2019.

The plan was designed to support competition, prevent conflict of interest, demonstrate fairness, maintain and improve program performance, and result in no disruption for stakeholders. The plan also included fee reductions for various MHSW materials through distribution of financial surpluses for material categories that had accumulated as reserves over past years.

In 2020 and 2021, Stewardship Ontario successfully implemented the Wind Up Plan.

Program Status

Stewardship Ontario's focus for first three quarters of 2021 was to assist service providers, municipalities and First Nations partners in understanding the applicable wind-up deadlines, and helping develop plans to ensure the successful final collection of all pressurized containers from all sites.

There was a significantly higher volume of material collected in the final collections, as the managers of collection locations wanted to ensure complete removal of all material, and there was stockpiling/additional buildup of materials during the pandemic.

As of October 1, 2021, materials previously collected under the MHSW Program are managed according to an individual producer responsibility (IPR) framework.

Approved service providers were given until October 15, 2021, to complete final collections from all approved collections sites and a November 30, 2021, deadline to submit all invoices for payment to Stewardship Ontario.

Orange Drop branding was to be removed from collection sites and Orange Drop social channels no longer published content after October 1, 2021. The Orange Drop legal title and domain are to be transferred to RPRA in 2022 as part of the final program termination activities.

Stewardship Ontario returned fees to MHSW stewards (see below for details) and will continue working to finalize all accounting details by mid-2022.

There were 266 stewards registered with the MHSW Program as of September 30, 2021.

MHSW - Final Steps

- Following completion/ resolution of financial and operational obligations, any remaining residual funds will be distributed to stewards - anticipated in June 2022
- MHSW data transfer to RPRA
- Necessary staff arrangements and service contracts will be adjusted/terminated
- Final MHSW Wind Up implementation report to be submitted to RPRA and Minister

2021 Performance Summary

The MHSW Program has seen notable declines in material volumes, steward fees and expenses in the past six years, as producers withdrew to become members of various ISOs.

In 2021, Stewardship Ontario directly oversaw the collection, transportation and recycling of pressurized containers for the first three quarters of the year. The volume of non-refillable pressurized containers collected was 406 tonnes, a collection rate of 76% and an increase of 102 tonnes from the previous year. The volume of refillable pressurized containers collected was 318 tonnes, a collection rate of 81% and a decrease of 95 tonnes from the previous year.

Almost all service providers continued to offer collection, transportation, and processing services through 2021.

Since not all stewards for other MHSW materials became part of an ISO, Stewardship Ontario was obligated to provide recycling services on their behalf with the various ISOs. Details of materials and volumes collected are available in Stewardship Ontario's annual filing to RPRA.

PROGRAM ACCESSIBILITY

Consumers typically drop off specific materials at a variety of municipal, automotive, retail and other locations in Ontario. Accessibility to Orange Drop locations and MHSW material collection events, excluding automotive materials sites (which were transferred to Automotive Materials Stewardship in 2017), was limited in 2021, as it was in 2020, because of the COVID-19 pandemic.

Many municipal events were cancelled and municipal depots closed to the public in early 2021. Later in the year, events were rescheduled, and depots reopened with protocols to protect staff and minimize the threat of the virus. Ontario Parks saw a decline in attendance, which had an impact on the collection of non-refillable pressurized containers.

MHSW Financial Performance

This table shows financial details for each of the MHSW materials managed by Stewardship Ontario for the nine-month operating period to September 30, 2021, as at December 31, 2021.

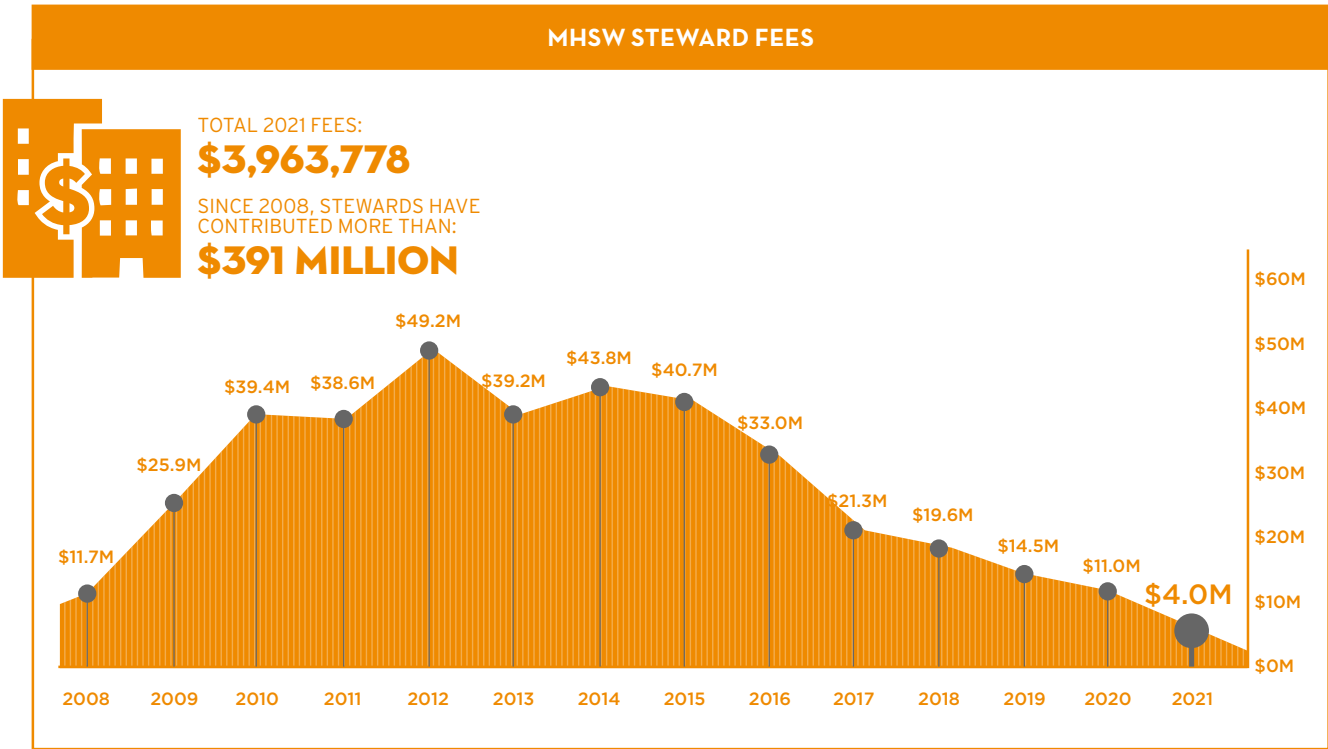
	FEE REVENUE	PROGRAM COSTS	OPERATING SURPLUS/ DEFICIT	WIND UP COSTS	FEE REDUCTIONS	TOTAL SURPLUS/ (DEFICIT)	ACCUMULATED RESERVE
Antifreeze	212,308	190,302	22,006	77,426	80,000	-135,420	61,114
Fertilizers	15,749	15,344	405	2,280	6,700	-8,575	33,804
Oil Containers	1,261,941	1,151,384	110,557	-71,710	1,357,257	-1,174,990	1,166,227
Oil Filters	454,834	406,434	48,400	30,343	573,000	-554,943	718,246
Paints/Coatings	24,528	20,967	3,561	4,790	1,409	-2,638	54,407
Pesticides	0	0	0	0	0	0	24
PC-NR	1,642,161	1,630,227	11,934	433,219	190,000	-611,285	197,166
PC-R	255,971	250,734	5,237	57,500	215,000	-267,263	87,025
Batteries	65	-320	385	-308	8,737	-8,044	436,810
Solvents	96,221	93,432	2,789	22,815	47,400	-67,426	117,289
TOTAL	\$3,963,778	\$3,758,504	\$205,274	\$556,356	\$2,479,503	-\$2,830,584	\$2,872,112

REVENUE FROM STEWARD FEES

Revenue for 2021 was \$4.0 million, and steward fee reductions totalled \$2.5 million (\$2.3 million per the Audited Financial Statements). The 2021 fee reduction amounts of \$2.5 million are gross amounts prior to the adjustment of deferred revenue. Please refer to Note 5 of the 2021 Audited Financial Statements attached. Revenue for 2020 was \$11.0 million.

Details of steward fee reductions can be found on the Stewardship Ontario website. Fee reductions in 2021 by material category were as follows:

- Antifreeze \$80,000
- Oil Containers \$1,357,257
- Oil Filters \$573,000
- Pressurized Containers-Refillable \$215,000
- Pressurized Containers-Non-Refillable \$190,000
- Batteries \$8,737
- Fertilizers \$6,700
- Solvents \$47,400
- Paints \$1,409



Governance

The Stewardship Ontario Board of Directors was in place until June 11, 2021. The board's duty was to supervise the management of the business and affairs of the organization and to ensure that it met the requirements and obligations of the approved stewardship program plans (Blue Box and MHSW). The board represented a balance of skills, knowledge and experience, and also reflected appropriate sectoral balance.

In 2021, the Board of Directors decided to transition the governance of the organization to an Administrator. The Resource Productivity and Recovery Authority appointed Susan Lo to the role. Susan has extensive executive experience as an Assistant Deputy Minister in the Ontario government, including the environment, energy and transportation portfolios, as well as experience overseeing the wind up of the Green Ontario Fund. Her role as Administrator is to oversee the work of Stewardship Ontario's management team during the wind up of its two main programs. The MHSW Program ceased operations on September 30, 2021, and the Blue Box Program is scheduled to end on December 31, 2025.

The governance transition was initiated to enable an orderly wind up of the programs while allowing stewards to focus on meeting the requirements of the new extended producer responsibility regulatory framework. Prior to the transition, Stewardship Ontario streamlined its management structure to reflect the focus on wind-up activities.

As part of the governance transition, Stewardship Ontario created a Steward Advisory Group of industry representatives to advise the organization's management team and the Administrator. The Steward Advisory Group meets quarterly and provides feedback on the implementation of the Blue Box Program transition plan. Scott Tudor, a professional engineer and former member of the Stewardship Ontario Board of Directors and chair of its Governance Committee, took on a newly created role to form and facilitate the Stewardship Advisory Group.

For more details about governance and 2021 changes to the Stewardship Ontario governance structure, please visit the [Stewardship Ontario website](#).

2021 Steward Advisory Group

The advisory group is composed of representatives of:

- Canadian Beverage Association
- Food, Health & Consumer Products of Canada
- Retail Council of Canada

2021 Board Members

(Except as noted, all Board members resigned June 11, 2021, as part of the governance transition)

Brianna Ames

Director of Public Affairs & Communications & Sustainability, Coca-Cola Limited
(Appointed March 19, 2021)

Robyn Collver (Board Chair)

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

Tim Faveri

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

Gulnara Gabidullina

Director, Global Product Stewardship, Procter & Gamble Inc.

Faroek Hanif

Vice President of Finance, The Clorox Company of Canada Limited

Sylvain Mayrand

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

Ron Soreanu

VP Public Affairs & Communications, Coca-Cola Limited
(Resigned March 2021)

Scott Tudor

Independent Director

Financial Performance

**Stewardship Ontario Financial Statements
For the year ended December 31, 2021**

18 Independent Auditor's Report

Financial Statements

- 20 Balance Sheet**
- 21 Statement of Changes in Net Assets**
- 22 Statement of Operations**
- 23 Statement of Cash Flows**
- 24 Notes to Financial Statements**



Tel: 416 865 0200
Fax: 416 865 0887
www.bdo.ca

BDO Canada LLP
222 Bay Street
Suite 2200, P.O. Box 131
Toronto, ON M5K 1H1 Canada

Independent Auditor's Report

To the Members of Stewardship Ontario

Opinion

We have audited the financial statements of Stewardship Ontario (the "Organization"), which comprise the balance sheet as at December 31, 2021, 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, 2021, 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 21, 2022

Stewardship Ontario Balance Sheet

December 31	2021	2020
		(Note 5)

Assets

Current

Cash	\$ 16,315,043	\$ 24,910,238
Investments (Note 2)	27,192,732	19,619,113
Accounts and other receivables (Note 3)	3,149,741	8,430,032
Prepaid expenses and deposits	31,487	25,505

	46,689,003	52,984,888
--	------------	------------

Investments (Note 2)	39,101,436	46,740,136
----------------------	------------	------------

	\$ 85,790,439	\$ 99,725,024
--	---------------	---------------

Liabilities and Net Assets

Current

Accounts payable and accrued liabilities	\$ 40,314,511	\$ 38,563,105
Deferred revenue (Note 5)	666,017	811,018
Continuous Improvement Fund (Note 6)	12,713,937	14,965,065

	53,694,465	54,339,188
--	------------	------------

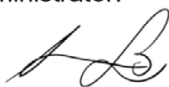
Net Assets

Unrestricted	31,449,974	37,675,457
Internally restricted (Note 7)	646,000	7,710,379

	32,095,974	45,385,836
--	------------	------------

	\$ 85,790,439	\$ 99,725,024
--	---------------	---------------

On behalf of the Administrator:



Administrator

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, 2021

	Unrestricted	Internally Restricted	2021 Total
Balance, beginning of year	\$ 37,675,457	\$ 7,710,379	\$ 45,385,836
Deficiency of revenue over expenses for the year	(13,289,862)	-	(13,289,862)
MHSW Sustaining Fund (Note 7)	2,100,000	(2,100,000)	-
Plastic Market Development Fund (Note 7)	4,964,379	(4,964,379)	-
Balance, end of year	\$ 31,449,974	\$ 646,000	\$ 32,095,974

For the year ended December 31, 2020

	Unrestricted	Internally Restricted	2020 Total (Note 5)
Balance, beginning of year	\$ 59,079,476	\$ 12,468,014	\$ 71,547,490
Deficiency of revenue over expenses for the year	(26,161,654)	-	(26,161,654)
Transfer to unrestricted net assets (Note 7)	5,403,635	(5,403,635)	-
MHSW program extension reserve (Note 7)	(646,000)	646,000	-
Balance, end of year	\$ 37,675,457	\$ 7,710,379	\$ 45,385,836

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

Stewardship Ontario Statement of Operations

For the year ended December 31	2021	2020
		(Note 5)
Revenue		
Blue Box program steward fees	\$147,527,971	\$140,276,059
MHSW program steward fees	3,963,778	11,025,699
MHSW program steward fee reduction (Note 8)	(2,334,503)	(4,727,373)
Investment income (Note 9)	273,418	3,388,327
	149,430,664	149,962,712
Expenses		
Blue Box Program		
Municipal Transfer Payments	149,246,510	126,199,889
Continuous Improvement Fund (Note 12(b))	-	26,556
Research and development	91,089	18,049
Promotion and education	384,723	395,545
Program wind up costs	898,588	1,371,821
	150,620,910	128,011,860
MHSW Program		
Direct material costs (Note 4)	2,063,166	8,036,698
Promotion and education	-	48,722
Program wind up costs	944,137	1,633,922
Surplus transfer (Note 11)	-	28,188,089
	3,007,303	37,907,431
Common costs		
Program management (Note 4)	7,302,736	7,638,649
Resource Productivity and Recovery Authority (Note 10)	1,789,577	2,566,426
	9,092,313	10,205,075
Total expenses	162,720,526	176,124,366
Deficiency of revenue over expenses for the year	\$ (13,289,862)	\$ (26,161,654)

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

Stewardship Ontario Statement of Cash Flows

For the year ended December 31	2021	2020
		(Note 5)
Cash (used in)		
Operating activities		
Deficiency of revenue over expenses for the year	\$ (13,289,862)	\$ (26,161,654)
Adjustments to reconcile deficiency of revenue over expenses for the year to cash provided by operating activities		
Non-cash component of investment income	1,436,322	(1,195,887)
Changes in non-cash working capital balances:		
Accounts and other receivables	5,280,291	(2,229,673)
Prepaid expenses and deposits	(5,982)	3,070
Accounts payable and accrued liabilities	1,751,406	(371,042)
Deferred revenue	(145,001)	(8,996,548)
Continuous Improvement Fund	(2,251,128)	(2,588,210)
	(7,223,954)	(41,539,944)
Investing activities		
Purchase of investments, net of expenses	(1,371,241)	(1,440,168)
Decrease in cash during the year	(8,595,195)	(42,980,112)
Cash, beginning of year	24,910,238	67,890,350
Cash, end of year	\$ 16,315,043	\$ 24,910,238

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

Stewardship Ontario

Notes to Financial Statements

December 31, 2021

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 had to submit a plan to transition the Blue Box Program no later than August 31, 2020. The transition plan was approved by RPRA on December 23, 2020. The Blue Box Program is expected to begin its transition in July 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.

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 ceased operation on June 30, 2020 and the remainder of the MHSW program ceased operation on September 30, 2021.

Stewardship Ontario Notes to Financial Statements

December 31, 2021

1. Significant Accounting Policies - (Continued)

(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.

(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.

Stewardship Ontario Notes to Financial Statements

December 31, 2021

2. Investments

	<u>2021</u>	<u>2020</u>
Cash held with broker	\$ 3,496,461	\$ 398,545
Fixed income	<u>62,797,707</u>	<u>65,960,704</u>
	66,294,168	66,359,249
Less: Current portion	<u>27,192,732</u>	<u>19,619,113</u>
	<u>\$ 39,101,436</u>	<u>\$ 46,740,136</u>

Fixed income investments bear interest at 1.83% to 3.95% (2020 - 1.83% to 4.25%) and mature between December 2022 and May 2030 (2020 - December 2021 and April 2030). The decrease in market value of investments for the year ended December 31, 2021 amounted to \$830,551 (2020 - increase of \$2,039,678) which is included in investment income (Note 9).

3. Accounts and Other Receivables

	<u>2021</u>	<u>2020</u>
Blue Box and MHSW program steward fees	\$ 3,759,449	\$ 9,157,703
Other	<u>28,868</u>	<u>31,657</u>
Allowance for doubtful accounts	<u>(638,576)</u>	<u>(759,328)</u>
	<u>\$ 3,149,741</u>	<u>\$ 8,430,032</u>

Stewardship Ontario Notes to Financial Statements

December 31, 2021

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 five year Management Services Agreement with CSSA for management, administrative and technical support, other services and facilities for administrative, technical and reporting activities. On January 1, 2019, the agreement was amended to extend for a further three years. During the year ended December 31, 2021, the Organization incurred costs of \$4,657,271 (2020 - \$6,280,742) for these services that included in program management expenses and program wind up costs. Included are accounts payable and accrued liabilities as at December 31, 2021 is \$Nil (2020 - \$486,969) relating to these services.

In 2019, certain members of the CSSA board of directors were also members of the Organization's board of directors and accounted for approximately 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).

During the year, CSSA entered into an agreement dated November 11, 2021 with the Resource Recovery Alliance Inc. ("RRA") to acquire substantially all assets, liabilities and operations of the CSSA. As a result of the acquisition, the MSA with CSSA was assigned to RRA. Charges totaling \$1,051,367 (2020 - \$Nil) were paid to RRA pursuant to the contract and are included in program management expenses in the statement of operations.

(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, 2021, the Organization incurred costs of \$624,100 (2020 - \$1,719,238) under this agreement which are included in direct material costs for the MHSW program. Included in accounts payable and accrued liabilities as at December 31, 2021 is \$Nil (2020 - \$62,662) relating to these services.

During the year, under the Hazardous and Special Products ("HSP") Regulation and new regulatory framework, AMS transitioned to a Producer Responsibility Organization ("PRO"). As at September 30, 2021, AMS and the Organization's MHSW program ceased operations.

Stewardship Ontario Notes to Financial Statements

December 31, 2021

5. Deferred Revenue

	2021	2020
Blue Box Program		
Glass Market Development Fund	\$ 666,017	\$ 666,017
MHSW Program		
Deferred revenue	-	145,001
	\$ 666,017	\$ 811,018

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).

The approved MHSW Wind Up Plan and subsequent amendments included provisions for the Organization to disburse MHSW program surplus funds to stewards and to industry steward organizations ("ISO") to facilitate fee reductions during the remainder of the program.

In fiscal 2020, funds were disbursed to stewards through fee reductions and surplus transfers and recognized in the statement of operations. It was subsequently determined that the deferred revenue advanced billings in 2012 should have been partially adjusted against fee reductions and surplus transfers, as they represent funds distributed back to the stewards. Therefore, an adjustment to the prior year comparative figures was recorded to recognize a decrease of \$2,202,037 in fee reduction, a decrease of \$6,794,511 in surplus transfer and a corresponding decrease of \$8,996,548 against the balance of deferred revenue for the year ended December 31, 2020, resulting in a corresponding reduction in the deficiency of revenue over expenses for the year and an increase in unrestricted net assets as at December 31, 2020 of \$8,996,548.

As at December 31, 2021, the balance of deferred revenue for the MHSW Program was reduced to \$nil by the fee reduction distributed to stewards of \$145,001 in fiscal 2021.

6. Continuous Improvement Fund ("CIF")

In prior years, the Organization was 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, 2021, the CIF spent \$2,251,128 (2020 - \$2,811,260) on continuous improvement activities. The funds held by the Organization for the CIF are included in cash.

Stewardship Ontario Notes to Financial Statements

December 31, 2021

7. Internally Restricted Net Assets

	2021	2020
Sustaining Fund	\$ -	\$ 2,100,000
Plastic Market Development Fund	-	4,964,379
MHSW Program Extension Fund	646,000	646,000
	\$ 646,000	\$ 7,710,379

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. During the year, the directors authorized the transfer of \$2,100,000 (2020 - \$5,403,635) from the Sustaining Fund to the Unrestricted Net Assets.

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. During the year, the directors authorized the transfer of \$4,964,379 from the Plastic Market Development Fund to the Unrestricted Net Assets.

The directors authorized the establishment of the MHSW Program Extension Fund to support the costs associated with an increase in general wind up costs associated with a potential program extension. In 2020, the directors authorized the transfer of \$646,000 from the Unrestricted Net Assets to the MHSW Program Extension Fund.

8. Steward Fee Reduction

The approved MHSW Wind Up Plan and subsequent amendments included provisions for the Organization to disburse MHSW program surplus funds to stewards and to industry steward organizations ("ISO") to facilitate fee reductions during the remainder of the program.

Stewardship Ontario

Notes to Financial Statements

December 31, 2021

9. Investment Income

	2021	2020
Interest income	\$ 1,597,509	\$ 2,087,385
Dividend income	112,230	105,055
Loss on sale of investments	(394,440)	(637,001)
	1,315,299	1,555,439
Adjustment to fair value	(830,551)	2,039,678
Investment expenses	(211,330)	(206,790)
	\$ 273,418	\$ 3,388,327

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. Surplus Transfer

During the fiscal year 2020, in accordance with RPRA's conditions of the ISO Surplus Fund Transfer Addendum to the MHSW Wind Up Plan, the Organization made a surplus fund payment of \$18,616,100 to AMS and \$16,366,500 to Product Care Association of Canada. The surplus fund expense was reduced by \$6,794,511 that related to the recognition of advanced billings in deferred revenue (Note 5).

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, 2021, the Organization has spent \$2,235,508 (2020 - \$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 CIF (Note 6). As of December 31, 2021, approved project funding and related commitments for the CIF amounted to approximately \$1,783,045 (2020 - \$4,839,438) of the total fund balance of \$12,713,937 (2020 - \$14,965,065).

Stewardship Ontario Notes to Financial Statements

December 31, 2021

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, and accounts and other receivables. 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 \$638,576 (2020 - \$759,328).

(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)) and the program has ceased operations as of September 30, 2021.

These risks have not changed from the prior year.

Stewardship Ontario Notes to Financial Statements

December 31, 2021

14. COVID-19 Impact

On March 11, 2020, the World Health Organization declared the outbreak of the coronavirus ("COVID-19") a pandemic. There have been significant disruptions to the Canadian and global economies. As the impact of COVID-19 continues to evolve, management is actively monitoring the effect on its financial condition, liquidity, operations, suppliers, industry, and workforce.

Although the Organization continues to operate, 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.



Stewardship Ontario

General Inquiries:

Stewardship Ontario
1 St. Clair Ave. W, 7th Floor
Toronto, ON M4V 1K6
T: 416-323-0101
F: 416-323-3185
info@stewardshipontario.ca

Steward Services:

Toll Free: 1-888-980-9549
werecycle@stewardshipontario.ca

Municipalities and Service Providers:

Toll Free: 1-888-288-3360
serviceprovider@stewardshipontario.ca