



2010 Stewardship Ontario Annual Report

IMPACT

Since 2004:

Municipal taxpayers have benefited from \$420 million in Blue Box funding provided by Stewardship Ontario

\$61 million of this has been invested to improve systems and infrastructure

An additional **\$4.5 million** of this has been invested to develop markets for recycled printed paper and packaging

7,000

Ontario jobs depend on Ontario's Blue Box recycling program

Waste diversion programs generate **\$673** million in GDP, and nearly **\$339** million in wages.*

Since **2004**, approximately **\$700** million of recycled commodities have been used to make new products

Waste diversion encourages new business growth and innovation based on green technologies

*Source: www.ene.gov.on.ca/environment/en/news/STDU_106727



INFLUENCE

INNOVATION

What is Product Stewardship?

Product stewardship is a product-focused approach to protecting our environment. The core principle of product stewardship is that whoever designs, manufactures, sells or uses a product has a role both in managing its end-of-life and in minimizing its impact on the environment.

This is also known as Extended Producer Responsibility (EPR).

In other words –

A company makes a product. A consumer buys it. A consumer uses it. Any leftover product and its packaging is once again the responsibility of the manufacturer.

What's in a stewardship plan?

- The stewardship plan submitted to government describes:
 - Materials/products that must be collected/recycled/safely disposed.
 - Producers – businesses that produce and/or sell those products and need to pay into the stewardship program.
 - How the program will comply with the Waste Diversion Act and the Minister's program request letter.
 - What the collection network for consumers will consist of: curbside service (Blue Box), depots, retail drop off, mobile events, etc.
 - The extent of the consumer education program.
 - The collection/recycling targets by material/product.
 - How the program will be financed.
 - How the program will be governed. (Our Blue Box Program Plan and our Orange Drop Program Plan can be found on our website at www.stewardshipontario.ca.)

How does Stewardship Ontario's plan operate?

- Our Orange Drop (MHSW) Program operates according to the Organization of Economic Cooperation and Development model of extended producer responsibility (EPR). The model requires a shift from government-managed and taxpayer-financed waste programs to industry and consumer managed and paid recycling and diversion programs. (Over 30 programs operate this way in Canada.) In other words, stewards of this program pay 100 per cent of the cost of the program.
- Our Blue Box Program is a shared responsibility model. This means 50 per cent of the cost of managing the recycling of products and packaging in the program is funded by stewards and 50 per cent is paid for by the municipality that collects the material from residents' Blue Boxes.

Stewardship Ontario's operating principles:

- Producer and user responsibility.

- Responsibility for the management of Orange Drop materials is 100 per cent EPR which means cost has shifted from general taxpayers to producers (businesses) and users (consumers) and not downloaded to local governments.
- Under the Blue Box shared responsibility model, Ontario businesses have paid over \$500 million towards Blue Box recycling since 2004.
- Approximately \$32.8 million has been provided to municipalities to support Orange Drop depots and collection events. Approximately \$22.1 million has been used for Orange Drop initiatives managed directly by Stewardship Ontario.
- A Level-playing field.
 - We work to ensure every business pays its fair share of the costs of managing its end-of-life material.
 - All consumers have reasonable and free access to collection facilities. In Ontario 95 per cent of households have a Blue Box and participate in recycling and 85 per cent have access to locations to drop off Orange Drop materials including:
 - 81 municipal recycling depots
 - 300+ annual collection events
 - 10,000+ automotive service centre locations for antifreeze, oil containers and oil filters
 - 292 return-to-retail locations for paints, coatings and batteries
- Our programs are results-based.
 - Our primary job is to meet collection and recycling targets and to divert resources and hazardous waste from landfills and waterways.
 - Our goal is continuous improvement.
 - Stewardship Ontario has consistently met or exceeded its Blue Box collection and recycling targets since 2004.
 - In the first two years of the Orange Drop Program 42,020 tonnes of materials were diverted from landfills and waterways in Ontario. In year two, collection quantity grew by 35 per cent as consumer participation steadily increased.
- Transparency and accountability.
 - Industry is accountable to government and consumers for achieving positive environmental outcomes and for the allocation of revenues from stewardship levies/fees. Our job is to work on behalf of our stewards to make that happen.
 - Every year we are required to submit independently audited financial statements to government and to make those statements publicly available. Our programs are also audited for compliance, effectiveness and efficiency.

About Stewardship Ontario

Who we are:

Stewardship Ontario is an industry-led product stewardship organization.

- We are a collection of 1,500 businesses that operate in Ontario.
- These businesses put packaging and products into the marketplace that must be safely managed and either recycled or recovered at end-of-life.
- We are not a government agency.
- We do not operate with taxpayer funds.

Our Vision:

To become a Canadian leader in responsible product stewardship.

Our Mission:

To lead the way through rigorous and innovative management to develop, implement and continuously improve recycling programs that are environmentally and economically sustainable.

Our Mandate:

To develop, implement and operate recycling programs, namely Ontario's Blue Box and MHSW (Orange Drop) Programs.

**STEWARDSHIP ONTARIO
IS AN INDUSTRY-LED
PRODUCT STEWARDSHIP
ORGANIZATION.**



Thinking beyond the box
Stewardship Ontario

Message from the CEO and Chair



Jim Quick
Chair

When we were reflecting on last year the best way we could think to describe it was: uniquely challenging. We are proud of what we achieved in 2010 – we exceeded our targets for the Blue Box Program for the seventh consecutive year – surpassing our target of 60 per cent by over five per cent.

We met or exceeded collection and recycling targets for five of the nine materials in what was just the second year of Phase 1 of the MHSW (Orange Drop) Program. Further, we're pleased that we built the organizational capacity needed to deliver against increasingly complex program requirements while maintaining sound financial results – managing steward fees and business investments well despite difficult business conditions.

We know that our operations have to be as effective as possible to support the credibility of our programs, improve environmental and financial performance, deliver quality service and increase our interactions with our stakeholders. In 2010 we undertook some key initiatives to enhance organizational capacity in our supply chain, procurement and financial and administrative operations. All program management and administrative functions for both Blue Box and Orange Drop are now fully “owned” and managed by Stewardship Ontario. Key staff and information systems are now in place to operate our programs in accordance with program plan standards and regulatory requirements.

Every year we manage a significant amount of funds on behalf of our stewards. Entrusted with this responsibility, our operational focus for both the Blue Box and Orange Drop Programs has always been to achieve the best overall environmental outcomes at the least possible cost. Reverse supply chains for recyclable commodities and hazardous wastes are becoming ever more complex to manage. Our efforts are focused on balancing cost pressures created by increasing oil prices and higher collection and diversion targets with the need to create a suitable collection and recycling infrastructure and viable commodity markets for existing and new products. Stewards can be assured that the fees they pay are

being used to fulfill their obligations for responsible environmental stewardship as set out in the Waste Diversion Act and the approved program plans. And, Ontarians can be confident that their Blue Box and Orange Drop materials are being dealt with safely and effectively, and are not making their way into our landfills or waterways.

Consumers and stewards alike can be assured that packaging and products discarded into these diversion programs are dealt with by qualified companies in an environmentally acceptable and safe manner, ensuring that any potentially hazardous substances are handled properly while harvesting and utilizing the valuable resources that can be recycled into new materials and products. We know that engagement of service providers, partners and other stakeholders is vital to the continued success of our stewardship programs. Throughout Ontario we work closely with all those who play a key role in helping to increase curbside collection for Blue Box and are building a provincewide network of collection depots, events, and retail drop-off sites for Orange Drop.

We invite you to read our stories in this report about what some stewards are doing to minimize the amount of packaging materials they are putting into the marketplace. You'll also find stories that illustrate how Ontario businesses are reclaiming and recycling Blue Box and Orange Drop materials and giving them a second life, while also creating jobs and contributing to our growing “green economy.”

In last year's annual report we shared that we were embarking on a Board renewal initiative and we are pleased to say that work is now complete. In June of 2010, 14 new Board members consisting of industry steward representatives from the consumer products and retail industries were elected. In 2010, one of our two independent Board members was appointed and another is being added in 2011. The “independents” have no connection to the businesses whose end-of-life wastes are managed by Stewardship Ontario and, given the significant public interest component of our



Gemma Zecchini
CEO

stewardship programs, their role is to represent the interests of the broader community on our Board.

Both management and the Board faced unexpected challenges in the rollout of Phases 2 and 3 of the Orange Drop Program that launched on July 1. The sheer breadth of products (10,000+) covered by the program's scope generated considerable confusion among retailers who struggled to implement eco fees and consumers who struggled to understand them. Because of this, the Minister revoked Phases 2 and 3 of the Orange Drop

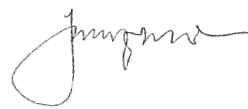
ENGAGEMENT OF SERVICE PROVIDERS, PARTNERS AND OTHER STAKEHOLDERS IS VITAL TO THE CONTINUED SUCCESS OF OUR STEWARDSHIP PROGRAMS.

Program in October. We are disappointed about what impact this may have for product stewardship and are determined to use this experience to sharpen our programs' retail and consumer communications in the future.

Despite this setback, we are excited about the future and the sustainability agenda of the retail and consumer goods industry. We are a community of businesses that thrives on innovation - not just on packaging and products, but in creating cost effective and environmentally sustainable supply chains.

We will transfer these core competencies to building equally excellent and effective *reverse* supply chains; we will use innovation to renew our infrastructure; and, we will ensure that valuable commodities never become garbage.

As we look ahead to 2011 and beyond, with the ongoing participation of Ontario consumers, the cooperation of key stakeholders and partners, and the dedication of our Board and staff, we remain committed to continuing our mission to develop, implement and continuously improve recycling programs that are both environmentally and economically sustainable.



Jim Quick
Chair, Stewardship Ontario



Gemma Zecchini
CEO, Stewardship Ontario

Fast Food Survey Summary

In November 2010, Stewardship Ontario conducted quantitative research to examine where and how consumers dispose of their waste from fast food outlets and coffee shops. We wanted to learn where all of those sandwich, donut and bagel wrappers, paper, plastic and Styrofoam food and beverage containers ended up. We were also interested in consumers' attitudes towards disposing of this waste and what, if any, factors affected their behaviors. Learning what proportion of the population recycles these materials while "on the go" allows us to develop strategies to better manage these items.

Here are some of our findings:

The majority of Ontarians are environmentally-minded.

- The issue of environmental pollution/consumer waste is important to virtually all Ontarians (95%) – 52% said it is very important.
- Most Ontarians (83%) declare making some changes in their behaviour to impact a reduction of environmental pollution, with over half (53%) claiming a significant increase in 'green' behaviour.
- Nearly all (95%) have increased recycling of items municipalities collect through their Blue Box (paper, plastic, glass, metal containers).
- A significant portion of Ontarians (87%) have also reduced plastic bag usage.

Ontarians care about recycling even while "on the go."

- Most Ontarians (93%) make an effort to dispose of fast food waste properly.

Orange Drop Consumer Survey Summary

In September 2010, Stewardship Ontario held eight focus groups in four cities and invited Ontarians from across the province to participate in surveys – 3,312 participated. Our goal was to gather consumers' thoughts on the disposal of hazardous waste – and in particular the Orange Drop Program which had launched in July.

Here are some of the outcomes of this outreach:

Recycling is a part of a daily routine for a majority of Ontarians

- A vast majority (93%) feel that the proper disposal of toxic waste is important to them and their families.
- Consumers are enthusiastic about the Orange Drop idea and declare

strong interest in participation in the program.

- Between a third and sixth of Ontarians (depending on the item) do dispose of toxic products at proper locations.
- Items that are disposed of properly most often are pressurized containers (63%), paint and paint solvents (59%), sharps (55%), flammables and unused pharmaceuticals (53% each), and batteries (51%).

- Only a small percentage (7%) do not care about recycling when in transit – placing waste in the first garbage bin available.
- Of the 93% who do make the effort: 37% go out of their way, 30% recycle if convenient bins are available, 26% take the waste home and recycle it there.

Ontarians have the best intentions, but the "rules" are unclear on some materials.

- Knowledge encourages recycling: when Ontarians know that an item

is recyclable, they are more likely to extend their recycling efforts to fast food waste when in-transit. Beverage cans and bottles and cardboard containers prove this.

- Proper recycling of these items comes naturally to much of the public, mainly because such items are regularly recycled through the municipal curb collection recycling programs.
- Inconsistent collection of wrappers, Styrofoam, and drink cups in municipal curbside programs can make

consumers falsely believe that they are not recyclable, even where in-store recycling services exist.

What is accepted in Blue Boxes and recycling bins is determined at the municipal-level.

Core materials like cardboard, newspaper, glass, plastic bottles and aluminum and steel cans are accepted in all programs, but other "optional" materials, like Styrofoam containers, plastic tubs, clamshells and paper cartons and drink cups, though recyclable, are not universally collected.

It is always best to refer to your municipality's website, recycling reference guide or calendar to find out what you should be placing in your Blue Box, especially after you move from one community to another.

KNOWLEDGE ENCOURAGES RECYCLING

2011 Trends in Packaging: Here's what we're watching

Sustainable packaging design and innovation will continue to be an industry priority in 2011 as widespread awareness and concern for the environment drives demand for sustainable solutions throughout the packaging supply chain – that's the verdict of several important studies published late last year. The challenge, as we know, is that consumers and industry are not always clear on what sustainable packaging is, or how it can be achieved.

Sustainability awareness has peaked.

The Packaging Digest/Sustainable Packaging Coalition's joint 2010 survey of consumer packaged goods (CPG) companies, retailers and packaging manufacturers confirms that industry awareness of sustainability has jumped in just a few years – making it a top priority for companies around the world. Ninety-eight per cent of respondents said they are familiar with sustainability issues, as compared to 53 per cent in 2007. In addition, 66 per cent of respondents indicated that sustainability has become a key decision factor and that failure to improve their sustainability practices would represent a risk to the company's reputation.¹

Consumers, retailers and regulators are seen as major drivers of sustainability. While regulators have focused on waste stewardship programs, consumers in particular are deeply concerned about climate change and are seeking ways to “make a difference,” according to global research firm, Datamonitor.² In a recent study, Datamonitor sought to understand why and to what extent

sustainable packaging matters to consumers. On the environment in general, it found there are deep-rooted values that consumers share internationally:

- 82% of consumers believe that environmental damage is a key threat to the world today;
- 86% of consumers report making “green choices” to benefit the environment;
- 85% of consumers believe that manufacturers and industry should play a large role in addressing all environmental issues.³

On packaging specifically, Datamonitor found that it features prominently as an important “green” issue for global consumers, especially recyclability and reduced packaging, and that heightened sensitivity to the environmental impact of packaging is influencing shopper behaviour.

Concern for the environment is high but understanding on what to do is low.

In a recent survey of leading packaging companies, PriceWaterhouseCoopers found that while there is agreement about the growing importance of sustainability, there remains considerable confusion about what “sustainable packaging” actually means.⁴ Similarly, on the consumer front, Datamonitor's research shows that while consumers are increasingly concerned about the implications of global warming and the unsustainable use of finite resources, knowledge gaps are prevalent. Yet, “while consumers may not thoroughly understand all issues, they will hold industry ever more accountable going forward.”

86%

OF CONSUMERS REPORT MAKING “GREEN CHOICES” TO BENEFIT THE ENVIRONMENT.

As the packaging industry pushes innovation to meet the demand for sustainable packaging, revenues in this sector are expected to climb. In its latest report US-based Pike Research predicts that worldwide packaging industry revenues will increase from \$429 billion in 2009 to \$530 billion in 2014, and that environmentally friendly packaging will almost double in revenues, climbing from \$88 billion to \$170 billion by 2014.⁵

¹ “Sustainability in Packaging”, by Packaging Digest and the Sustainable Packaging Coalition, October 2010.

² “The Future of Sustainable Food and Beverage Packaging”, by Datamonitor, October 2010.

³ Ibid., Table 1, p. 32.

⁴ “Sustainable Packaging: threat or opportunity?” by PriceWaterhouseCoopers, 2010.

⁵ “Sustainable Packaging, Environmentally Responsible Packaging for Consumer and Industrial Markets,” by Pike Research, 2009.

Trends We're Watching

Industry should lead and educate.

It is therefore incumbent upon industry, says PriceWaterhouseCoopers, to take the lead and develop a consensus on the definition of sustainable packaging and a methodology for measurement. Industry must also educate consumers and regulators on the benefits of packaging and the myriad of steps being taken to minimize its environmental and social footprint.

On the first priority, the Consumer Goods Forum's Global Packaging Project (GPP) is promising to deliver a common framework and measurement system for sustainable packaging that will assist companies in assessing their packaging performance and improving their sustainability. The GPP encourages companies to take a more holistic approach to sustainability by looking at the entire supply chain from sourcing of raw materials to end-of-life management. The finalized metrics, due out this year, are the result of consumer goods manufacturers, retailers, packaging manufacturers and industry associations from around the world collaborating to identify and adopt a unified approach to sustainable packaging. The framework consists of familiar environmental metrics such as recycling rate, recycled content, renewable content, packaging to product ratio, etc. It also provides not-so-familiar metrics to quantify and evaluate the environmental impacts associated with the lifecycle of the package from extraction of its raw material to end-of-life management, including its emissions profile, its impact on freshwater sources, and more.

While the GPP's framework is primarily designed to enable supply chain trading partners to speak to each other about sustainable packaging, can it also help brand owners and retailers speak to consumers?

It's definitely a first step, but translating a package's sustainability profile into a meaningful narrative for consumers will be a challenge. The story can be complex, the information extensive making it difficult for consumers to make informed judgments about the environmental merits and drawbacks of different forms of packaging. Consumers want to make a difference - a large segment of citizens across 20 nations (around 45 per cent) are actively trying to reduce their environmental footprint, and the focus on doing so is intensifying. But a lack of consumer knowledge combined with a deluge of competing "eco-friendly" claims and greenwash threatens to undermine consumer trust.

Increased transparency in the supply chain and adoption by industry trading partners of a common definition of sustainable packaging will help improve data integrity, which in turn, is expected to make its way into bar codes and radio frequency identification (RFID) systems. Smart technology could also prove a very useful tool for directly engaging with consumers - educating them on how to make sustainable choices as they navigate store aisles.⁶ Smartphone apps such as Barcoo and Goodguide enable consumers to scan a barcode to see detailed ratings for health, environment and social



responsibility for thousands of products and companies. Consumer Goods Forum identifies "increased impact of consumer technology adoption" as one of the 12 global trends that will have the greatest impact on industry over the next 10 years.

Ontario's unique position.

As the birthplace of Blue Box recycling, Ontario consumers have a unique take on packaging sustainability. Stewardship Ontario's own research confirms that Ontarians still have a great deal of affection for the Blue Box, and continue to view it as their primary contribution to global sustainability. Indeed they measure the "sustainability" of a product, and form their view of a company's commitment to sustainability, primarily based on whether their local municipality accepts the related product packaging in their Blue Boxes.

It is important for Stewardship Ontario to participate in efforts to educate consumers and encourage them to take a broader "lifecycle" view of

sustainability. However, the biggest contribution we can make to our stewards' corporate sustainability efforts is to widen the range of product packaging that can be economically recycled and ensure that each municipality collects the same materials. Fortunately, Stewardship Ontario's recent success in developing markets for "hard to recycle" materials demonstrates that success is possible. (See our Market Development section on page 10.)

Curbside recycling has always been the most economically efficient means of recycling the widest range of printed paper and packaging. Global trends, such as pressure for sustainable transportation networks, reduced fuel consumption and higher commodity prices are creating new opportunities to extract more value from recyclable materials and capture more material at a lower cost - promising a new era of even broader and more economical curbside recycling.

⁶ "Future Value Chain 2020: Building Strategies for the New Decade" The Consumer Goods Forum together with Capgemini, HP and Microsoft Corp., January 2011.

Nestlé Waters Canada: making sustainable packaging a priority

In April 2010, Nestlé Waters Canada launched its newly designed Montclair Natural Spring Water bottle. Made of 100 per cent recycled PET (rPET) plastic, the Montclair bottle brings Nestlé Waters Canada closer to achieving a zero carbon footprint. After an empty bottle is placed in the Blue Box, it is picked-up, sorted, baled, washed, sterilized and reformed into raw PET material which Nestlé Waters Canada then uses to make its Montclair bottles.

By utilizing the full lifecycle of plastic bottles, Nestlé Waters Canada reduced its environmental impact. The Montclair bottle is the first 100 per cent rPET container in the Nestlé world as well as amongst major bottled water brands in Canada.

"With about 72 per cent of Canadians drinking bottled water today, using recycled plastic is an innovative and effective way to reduce our collective carbon footprint," said John Zupo, President, Nestlé Waters Canada. "Each Montclair bottle serves as an education vehicle to inform consumers about the importance of recycling and demonstrate that recycled plastic can be reused repeatedly to create new consumer products."

This new initiative also encourages consumers to re-think their own environmental impact while making purchasing decisions. "Consumers can reduce their carbon footprint by purchasing Montclair Natural Spring Water packaged in 100 per cent recycled PET," explains John. "They can further reduce their carbon footprint by 25 per cent by simply placing their empty

Montclair Natural Spring Water bottle in a Blue Box, where it will be used again to make another plastic beverage container."

In addition to deploying recycled plastic and reducing plastic in its bottles, the company unveiled its Eco-Shape® 500 ml bottle in January 2010. Weighing 9.16-grams, the container is one of the lightest in Canada's beverage industry. Nestlé Waters Canada also continually reviews its secondary packaging materials for reduction opportunities. In 2009, Nestlé Waters Canada used 100 per cent recycled corrugated trays and pads supplied by Atlantic Packaging for its domestic waters, saving the equivalent of 55,824 mature trees – enough to cover 29 football fields. This practice also represents the equivalent diversion of approximately 93 truckloads of waste that would have been otherwise destined for landfill.

For its commitment to sustainable packaging practices and other green initiatives, Nestlé Waters Canada received Atlantic Packaging's Certificate of Environmental Sustainability Award in June 2010. This award recognizes the substantial efforts made by Nestlé Waters Canada to maximize its packaging and reduce its carbon footprint.

For its contribution to the enhancement of the Canadian plastic industry's stewardship and sustainability through its development of the 9.16-gram 500 ml PET bottle, the company was awarded the 2010 Plastics Stewardship Award by the Canadian Plastics Industry Association.

**STUDIES
SHOW THAT
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PLASTIC
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INTO NEW
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WOULD BE REQUIRED
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PRODUCT FROM RAW
MATERIALS.**



Burt's Bees: Big changes come in small packages!

Burt's Bees is on a journey. As a company with a mission to help people live better lives every day, naturally - they have set a goal to be the "greenest personal care company on earth" by 2020.

As a member of the Sustainable Packaging Coalition, Burt's Bees is committed to reducing packaging. Any packaging they do create seeks to be leaner and made of recycled and recyclable sustainably innovative materials that are designed for an environmentally sensitive end-of-life... and even a second life.

Burt's Bees has succeeded in trimming excess packaging from many of its products - up to 50 per cent.

Here are a few examples of small changes that have made large impacts:

- Burt's Bee's best-selling lip balm and lip shimmer no longer come completely shrink-wrapped. Instead, the label extends slightly over the cap now, to ensure that the product is not tampered with prior to purchase.

In a single year this innovation eliminated 1,800 miles of shrink wrap film that would have been sent to landfill.

- In addition, eliminating reliance on shrink wrap-related equipment has conserved over 3,300 kilowatt hours and \$300,000 annually, while significantly increasing production line efficiency.

- Burt's Bee's lip gloss tubes now contain 40 per cent post-consumer recycled content and are recyclable.

Packaging innovation is an ongoing learning experience at Burt's Bees as the company assesses decisions through a lens of sustainability, aesthetics, function and cost on the road to more sustainably innovative packaging solutions.

"By 2020 we want to provide the most environmentally innovative packaging that we can - that the consumer recognizes is innovative and environmentally-friendly," says Packaging Engineering Manager Courtney Clonger.



BIG CHANGES

Stewardship Ontario & Innovation

Global market forces are coming together to create the potential for a new era in curbside recycling – an era where we capture a wider range of printed paper and packaging at a lower cost. However, this new era will not emerge on its own. It will require action at every link of the recycling supply chain – from the point at which the material is deposited in a Blue Box to the point at which it is transformed into a commodity suitable for manufacturing use.

This approach has yielded success already. In 2006 Stewardship Ontario initiated efforts to recycle a broader range of plastic packaging. We completed a comprehensive study of barriers to successful recycling of non-bottle rigid plastics – packaging that includes cottage cheese tubs, yogurt capsules and clamshells. We then sought out companies with an interest in finding ways to overcome those barriers, and invited them to propose how they would deploy technology and innovation to create commercially sustainable solutions. EFS Plastics and Entropex were the two successful companies to emerge from this process and in 2009 Stewardship Ontario agreed to provide up to \$2.5 million to test these concepts commercially and expand local recycling capacity.

Both projects were underway by 2010 and the first stage of each project was successful. Both EFS Plastics and Entropex are now proceeding to the next stage of expansion.

Stewardship Ontario has also worked with Gracious Living, a local plastics product manufacturer, to assist with the introduction of new products made

from recycled Blue Box plastics processed by Entropex and EFS Plastics. (See our feature on Gracious Living on page 11.)

Ontario Blue Box plastics are also a major component of Canadian Tire's new Blue Planet line of products sold throughout Canada, which means that plastic packaging – once thought to be “unrecyclable” – is now gracing the homes of Canadians from coast to coast to coast.

Stewardship Ontario is very proud of these achievements and each accomplishment opens new possibilities. For instance, insights from our plastics projects were put to use in 2010 when we established a \$500,000 market development fund for paper packaging. We are currently working to determine the best way to extract value from “composite” paper packaging, including juice and milk containers, coffee cups and paper cylinders. In 2011 Stewardship Ontario will be putting another call out to the marketplace to find other innovators, like Entropex, EFS Plastics and Gracious Living. Partnering with forward-thinking Ontario companies is a crucial next step in ushering in a new era in curbside recycling.

Stewardship Ontario's first major effort at market development did not enjoy long-term success. Unical, which received funding from Stewardship Ontario to commission a new recycling plant in Brampton, was forced to close its Ontario facility in 2010. Due to the launch of the Ontario Deposit Return Program for LCBO wine and spirits containers, the plant was not able to secure the volume of Blue Box glass envisioned in its original business plan. While this was unfortunate, the improved price for Blue Box glass that was achieved while the plant was in operation enabled Stewardship Ontario to recoup its investment in the form of reduced costs and reduced steward fees for Blue Box glass. Stewardship Ontario also learned some important lessons through this business venture – primarily, how critical it is to secure sufficient volume and through-put in order to make local recycling supply chains financially viable.



The Blue Box Supply Chain



INNOVATIVE USES FOR RECYCLED PLASTICS ARE MULTIPLYING RAPIDLY

In to the Blue Box – into a Blue Box

Many recyclable plastic materials are on their way back into your home, your car and your life after you've put them into your Blue Box. Innovative uses for recycled plastics are multiplying rapidly, and the Blue Box itself is now made from recycled plastic.

Established in 1980, Gracious Living Corporation is a leading Canadian manufacturer and importer of resin/metal furniture, outdoor accessories, housewares, storage solutions, pet products, carpet and laminate flooring, lighting fixtures, recreational products, window coverings, decking and numerous custom products.

They are also a leading injection and extrusion manufacturer in Canada.

With 78 injection molding machines, Gracious Living operates 24 hours a day, seven days a week.

An ongoing initiative at Gracious Living has been to address the environmental concerns of the communities they serve through the products they manufacture. Most recently the company partnered with Canadian Tire (a steward company) to launch an exclusive national line of products – Blue Planet. Products within this line include storage totes, step stools, laundry baskets and banquet tables.

Given their experience with innovative recycling technologies it only seemed logical that the next step would be to introduce a Blue Box made from what

residents deposit into their Blue Boxes. Gracious Living's Blue Boxes are available to Ontario municipalities and residents and are manufactured using 70 per cent post-consumer material.

By partnering with Stewardship Ontario, Gracious Living was able to secure a supply chain, ensuring that they received the necessary "raw materials" to manufacture their products.

"Gracious Living's 'green' vision has been realized. With a commitment towards being an environmentally responsible manufacturer, vendor, neighbour and employer, we are pleased that we will grow our business through environmentally sustainable technology

and practices," said Enzo Macri, President and CEO, Gracious Living. "Our long-term goal is to maximize the amount of recycled content in our products while we continue to deliver quality products and value to our customers and consumers alike."

"Our work with Gracious Living demonstrates what can be achieved when we take a 'full supply chain' view of recycling," said Lyle Clarke, Vice President of Innovation and Blue Box for Stewardship Ontario. "This success is the proof-of-concept we needed to attract more interest in creating a commercially successful recycling industry here at home, and build Ontario's green economy."

The Blue Box Program – A Shared Responsibility

Ontario's Blue Box Program is operated by Ontario municipalities and is 50 per cent funded by Stewardship Ontario through the Blue Box Program Plan. The management and funding of the Program – the collecting, transporting and processing of recyclables – is shared between municipalities that run local recycling programs and the companies (industry stewards) that produce the products that end up in curbside recycling boxes, bags and carts.

The now-familiar Blue Boxes took hold in many parts of the province in 1983, originally accepting five types of materials: aluminum containers, glass containers, newsprint, polyethylene terephthalate (PET) plastic bottles and steel containers. Since then, the program has expanded dramatically and recycling has become second nature to the vast majority of Ontarians. In 2009, 217 municipalities offered residential recycling programs. Thanks to a committed partnership between municipalities, industry and consumers, the province's waste diversion rate is one of the highest in North America – and continues to grow.

And, as the Blue Box Program progresses, the investment from industry stewards also contributes to job creation, new processing technology, expanded service, broader accessibility, and stronger markets for recycled materials.

Ontario's Blue Box Program is critically important to ensure useful materials aren't wasted and that we continue to reduce consumption of raw materials and energy in manufacturing.

1,100 STEWARDS CONTRIBUTED TO THE BLUE BOX PROGRAM IN 2010

Industry stewards contribute 50 per cent of the municipal cost of operating the Blue Box Program and have contributed approximately \$420 million in cash and benefits to local municipalities since 2004.

Facts about the Blue Box Program

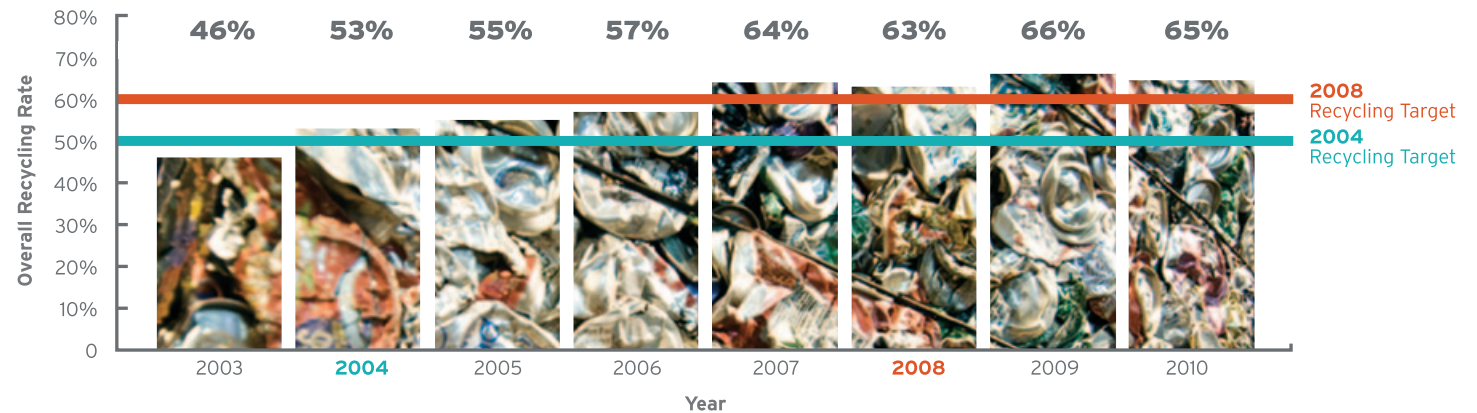
- More than 95 per cent of Ontarians now participate in Blue Box recycling and have access to highly convenient curbside recycling, for hundreds of products in more than a dozen categories.
- Nearly nine-in-ten (89%) Ontarians feel that the Blue Box Program still remains the main driver of their recycling habits, and for a strong majority (75%) the Blue Box is their primary environmental effort.
- The Blue Box Program helps divert a significant amount of waste from our landfills and is one of Ontario's most important recycling programs.
- Since 2004 approximately \$700 million of recycled commodities have been used to make new products – helping support market development for everything from recycled paper to packaging, textile fiber and furniture.
- In 2010, over 900,000 tonnes of waste was diverted from landfill. That is equivalent to nearly seven CN Towers.



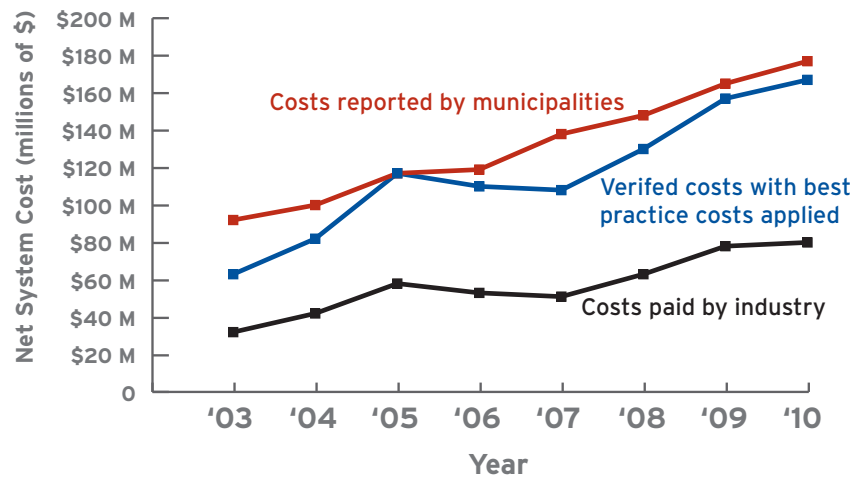
Blue Box Program

%

Blue Box Recycling Targets

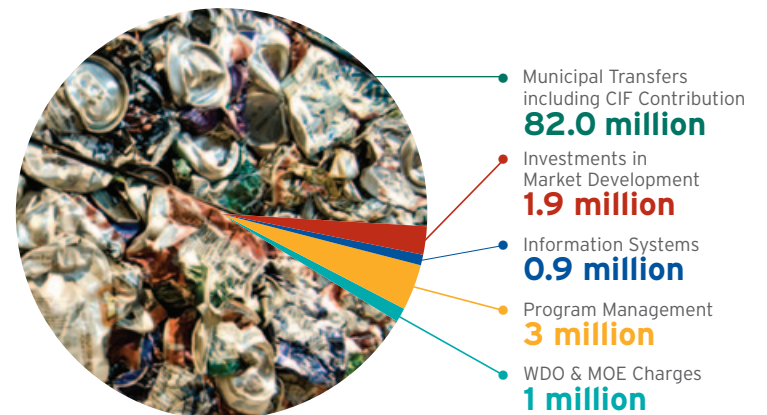


Blue Box Program Cost History



Blue Box 2010 Expenses

\$



Orange Drop Program

The Orange Drop Program – Fully Funded by Industry

Stewardship Ontario manages the Orange Drop Program. The costs for collecting, transporting, processing and responsible handling (recycling and/or safe disposal) of Municipal Hazardous or Special Waste (MHSW) – is fully funded by the industry stewards that supply the obligated materials. Transferring these costs to industry from municipal property taxpayers is a key objective for the program under the Waste Diversion Act.

Phase 1 of the program launched in July 2008 (under the name “Do What You Can”) and provided safe end-of-life management for nine materials, including: paints and coatings; solvents; oil filters; oil containers; single-use dry cell batteries; antifreeze; pressurized containers; fertilizers; pesticides including herbicides, insecticides and fungicides.

The Orange Drop Program has a high degree of accountability. Materials in our program must meet a number of targets including: collection targets, recycling targets and consumer accessibility targets. Since 2008, the program has grown to divert millions of kilograms of hazardous waste from our landfills and waterways each year.

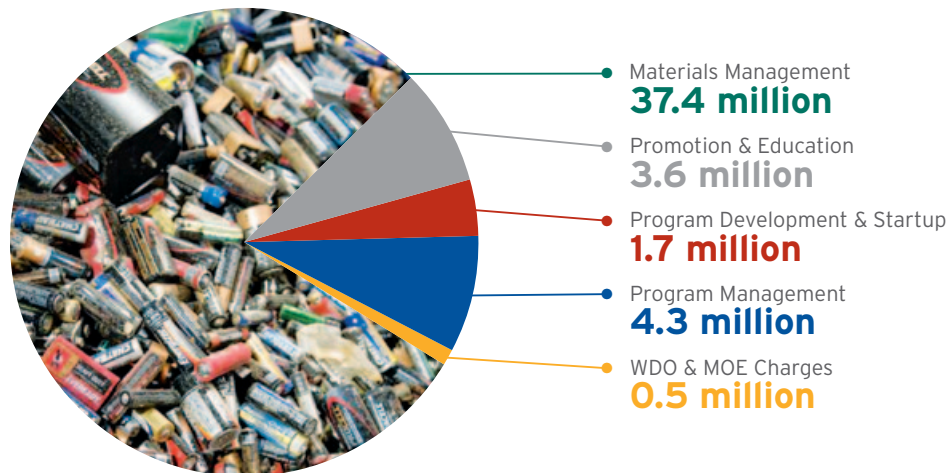
When the program expanded in 2010 – launching Phases 2 and 3 of the

program – it added 13 more materials and was re-branded Orange Drop. Like Stewardship Ontario’s very successful Blue Box Program, the Orange Drop Program uses colour to identify the program and leverages existing consumer behavior around recycling – people know what belongs in their Blue Box and Green Bin and now Orange Drop. Combined with a strong call to action – Make the Drop – the Orange Drop brand has created a platform for increased awareness of the materials in the program and the

need to safely dispose of household hazardous waste.

On July 20, 2010 the Minister of the Environment (MOE) suspended Phases 2 and 3 for a 90-day review period due to consumer confusion and retail implementation issues with ‘eco-fees.’ The Minister announced the results of the Government’s 90-Day review of the Orange Drop Program on October 12, 2010 and stated: “The government is permanently ending the household waste program that took effect on July 1.”

Orange Drop 2010 Expenses



Phase 2 materials will now be managed under a new government program called the Selected Household Hazardous Waste Initiative and includes fire extinguishers, rechargeable batteries, fluorescent light bulbs, sharps, mercury containing devices and pharmaceuticals. This program will be funded by the province. Phase 3 materials will be funded by municipalities and include corrosives, flammables, toxics, irritants and reactives. The Minister requested that Stewardship Ontario prepare a revised MHSW Program Plan to manage the nine materials in Phase 1 that remain funded by industry stewards. At the MOE’s request, Stewardship Ontario continues to manage Phase 2 and 3 materials. Stewardship Ontario is preparing a revised MHSW Program Plan for Phase 1 materials.

512 MHSW STEWARDS REPORTED IN 2010



The Orange Drop Tour

As part of our consumer outreach activities, our Orange Drop promotion and education tour attended 86 events between July 1st and September 30th in communities across Ontario.

Facts about the Orange Drop Program

- Currently, 84.5 per cent of Ontarians have access to Orange Drop locations.
- Materials are accepted at local municipal facilities and collection events, retail stores, and other community sites. These include:
 - 300+ annual collection events
 - 81 municipal recycling depots
 - 10,000+ automotive service centre locations (antifreeze, oil containers, oil filters)
 - 292 return-to-retail locations (paints and coatings, batteries)
- In 2010, the Orange Drop Program diverted through collection a total of 26,482,462 kilograms of waste from landfills and waterways, including:
 - 11,165,716 kilograms of paints and coatings - comparable to the weight of 2,427 adult African elephants
 - 7,958,114 kilograms of oil filters which is equal to the weight of 151 City of Toronto transport trucks filled with Blue Box recycling
 - 761,860 kilograms of single-use dry-cell batteries which is equivalent to the weight of 48 school buses
- Stewardship Ontario ensures leftovers and containers deposited at a collection centre or retail drop zone are recycled or reprocessed into new materials – such as recycled paint, antifreeze and plastics, or good-as-new raw materials for manufacturing.
- For materials in the program that can't be recycled – such as fertilizers and pesticides – secure landfill is the most environmentally-friendly disposal option.

4.7 MILLION TOTAL ATTENDANCE AT EVENTS

RMC: A long-running battery recycling company becomes an international leader in its field

It's not a surprise that Raw Materials Company Inc. (RMC) has become an international leader in battery recycling. They are a family-run business, so they know the value of conserving resources for future generations, and their commitment to innovation and quality has driven them to create low-impact and nearly carbon-neutral processes for recycling over 90 per cent of the dry-cell batteries disposed of in the Ontario marketplace.

Established in 1991, well before stewards were considering return-to-retail programs or environmental sustainability, RMC lead the way with innovative thinking that has eliminated the landfilling of incredibly valuable and useful resources. RMC is an ISO 14001 registered company with exceptional

environmental performance and industry leading technology.

RMC can - and wants to - manage more batteries. A lot more; closer to 12,000 tonnes a year. They currently process batteries at 25 per cent capacity. Their plant runs at full capacity, only a few times per year which is why partnering with Stewardship Ontario to recycle batteries made so much sense.

Stewardship Ontario and RMC began a formal partnership in July 2008; however, the two organizations had worked together extensively during the initial inception of the Ontario MHSW program. This mutually beneficial relationship brings more materials to RMC and helps Stewardship Ontario meet its targets to

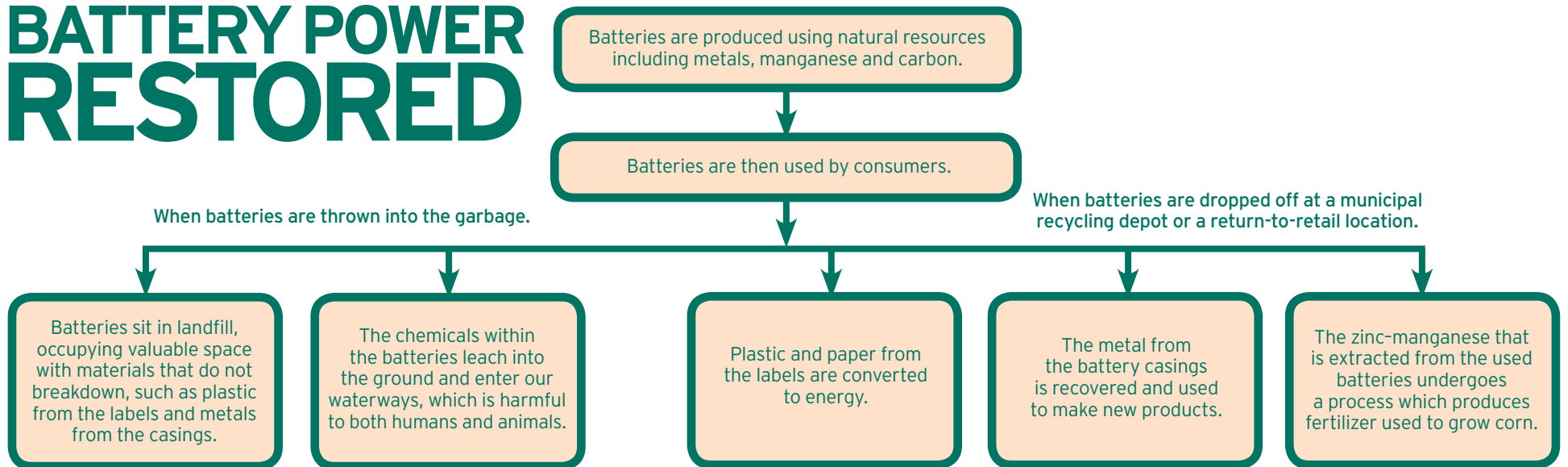
divert batteries from landfills in a safe and sustainable way.

The partnership is also supporting the growth of a green economy in Ontario. RMC currently employs 40 full-time staff: from expertly trained battery technicians, to engineers, environmental managers and safety coordinators. Beyond their walls, they encourage the growth of a local reverse supply chain of recycled metals. None of their recovered materials are shipped outside of North America, and all the steel is sold to refineries in Hamilton (only 30 minutes away). By focusing on a local market, RMC and Stewardship Ontario are able to reduce the environmental impacts of recycling batteries by minimizing transportation

emissions and by ensuring that the entire network adheres to local regulations.

In addition to providing good jobs for Ontarians, this partnership helps to encourage innovation right here at home. The battery recycling process that RMC uses was designed, engineered and built in-house. They will admit that it's not perfect yet, and they're continuously working to improve it so that it is the most efficient and lowest impact battery recycling process possible. Although, the numbers already speak to their success: RMC recovers 100 per cent of the materials contained in household batteries and resells those components directly back to manufacturers to use as feedstock for manufacturing new products used every day in North America.

BATTERY POWER RESTORED



Recycling batteries ensures that valuable materials are recovered and harmful materials are disposed of safely. This reduces the further consumption of natural resources and protects our waterways.

Service Provider Profile

Photech: A long-time proponent of green

Photech Environmental is a Niagara-based environmental solutions provider that specializes in developing new and innovative opportunities for managing commercial, industrial and household hazardous wastes throughout Ontario. With the emergence of public “green” awareness and the implementation of Stewardship Ontario’s initiatives, it was a natural fit for Photech to get involved with the Orange Drop Program.

Photech was historically a minor participant in the household hazardous waste business. However, they believed

strongly in the goals and direction of the Orange Drop Program and in 2008 made a strategic business decision to increase their involvement by becoming a service provider to Stewardship Ontario.

Photech provided on-site servicing and waste transportation for Stewardship Ontario’s original Commercial Collection Paint Program in 2009. This successful program afforded Photech the opportunity to grow its operations, which in-turn made it possible for them to improve the

services provided to their original industrial and commercial clientele.

Since that initial service provider contract, Photech has expanded its waste management operations to accommodate the servicing of other household hazardous waste collection sites that are administered under the Orange Drop Program.

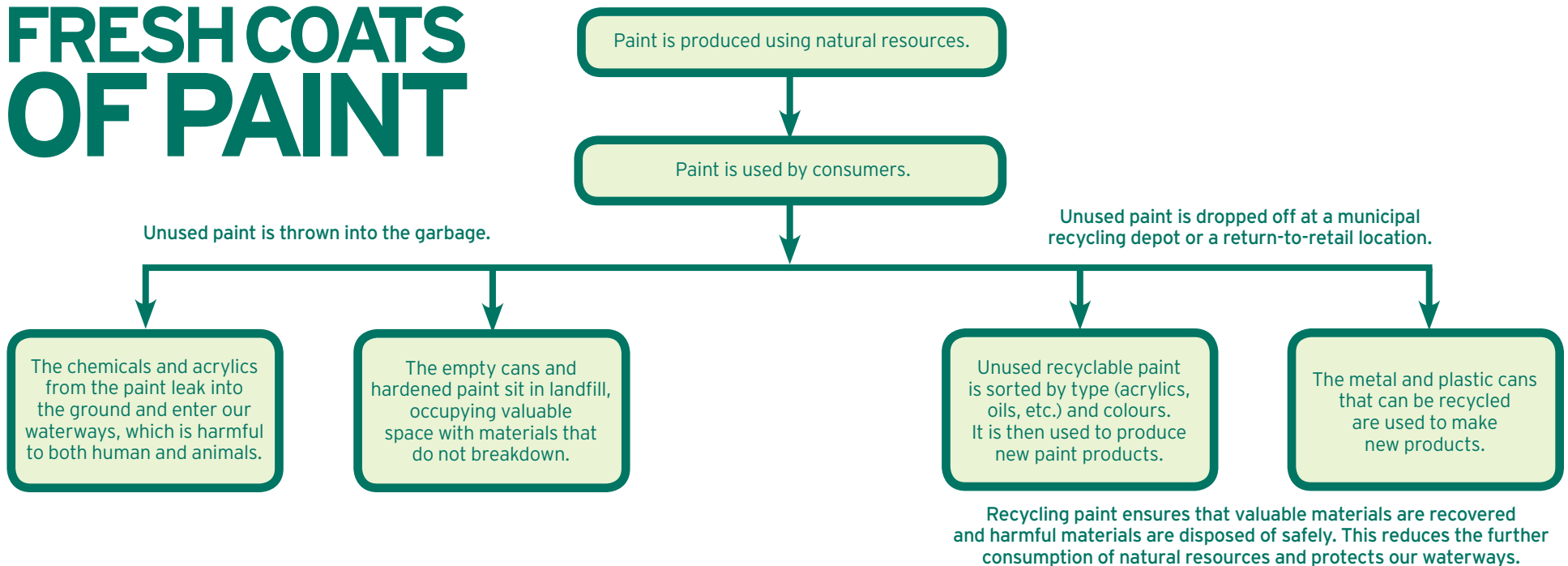
To remain competitive Photech has developed new and expanded recycling networks and has set up in-house recycling systems to process over

180,000 kilograms of paints and organic solvents.

Additionally, in the last year alone, Photech managed over 670,000 kilograms of waste material such as fluorescent bulbs, batteries, oil filters, and other recoverable/reusable materials, to third party, approved recyclers throughout Canada and the United States.

The commodities created from these wastes can become recycled “green” products.

FRESH COATS OF PAINT



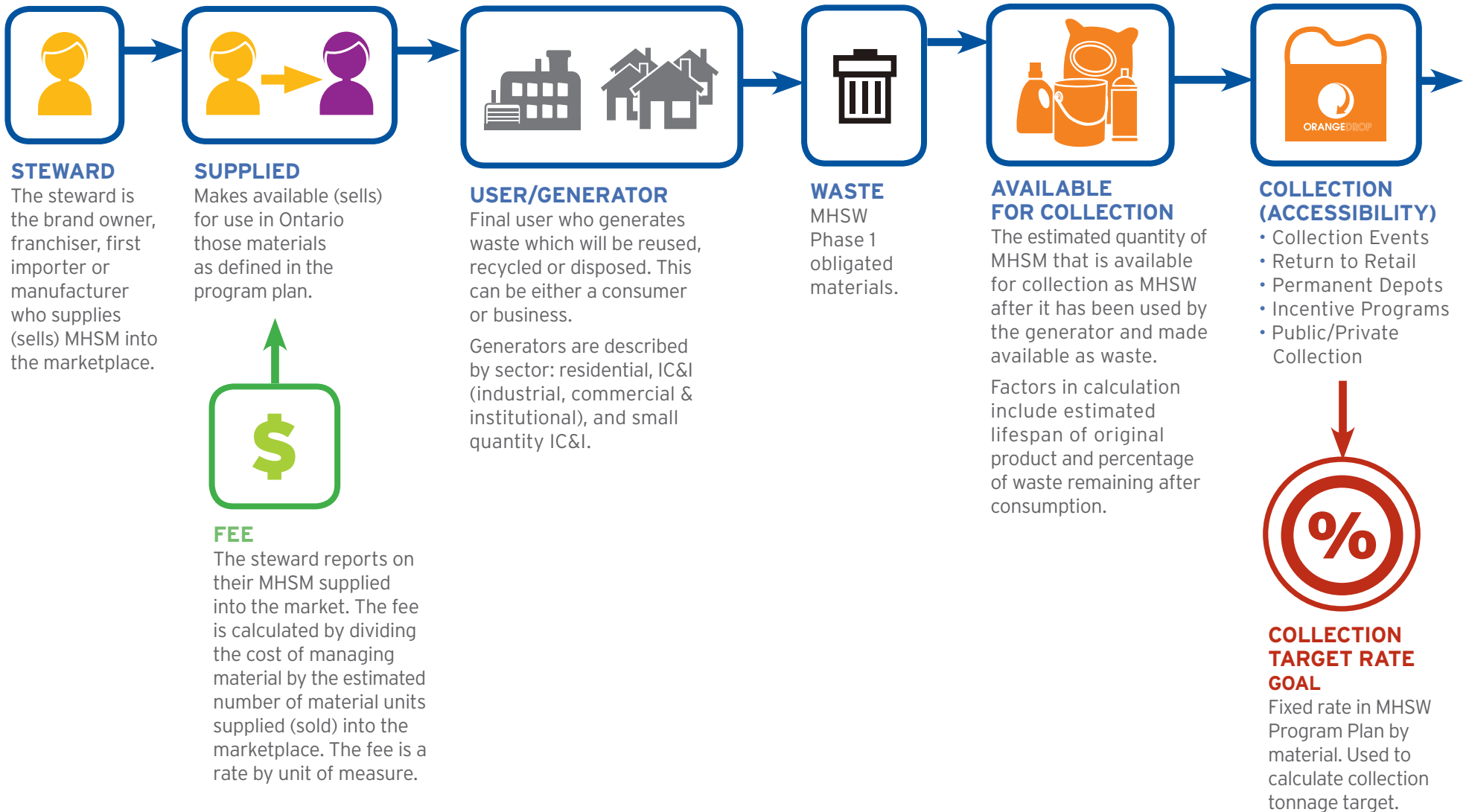
Glossary of MHSW Lifecycle Terms

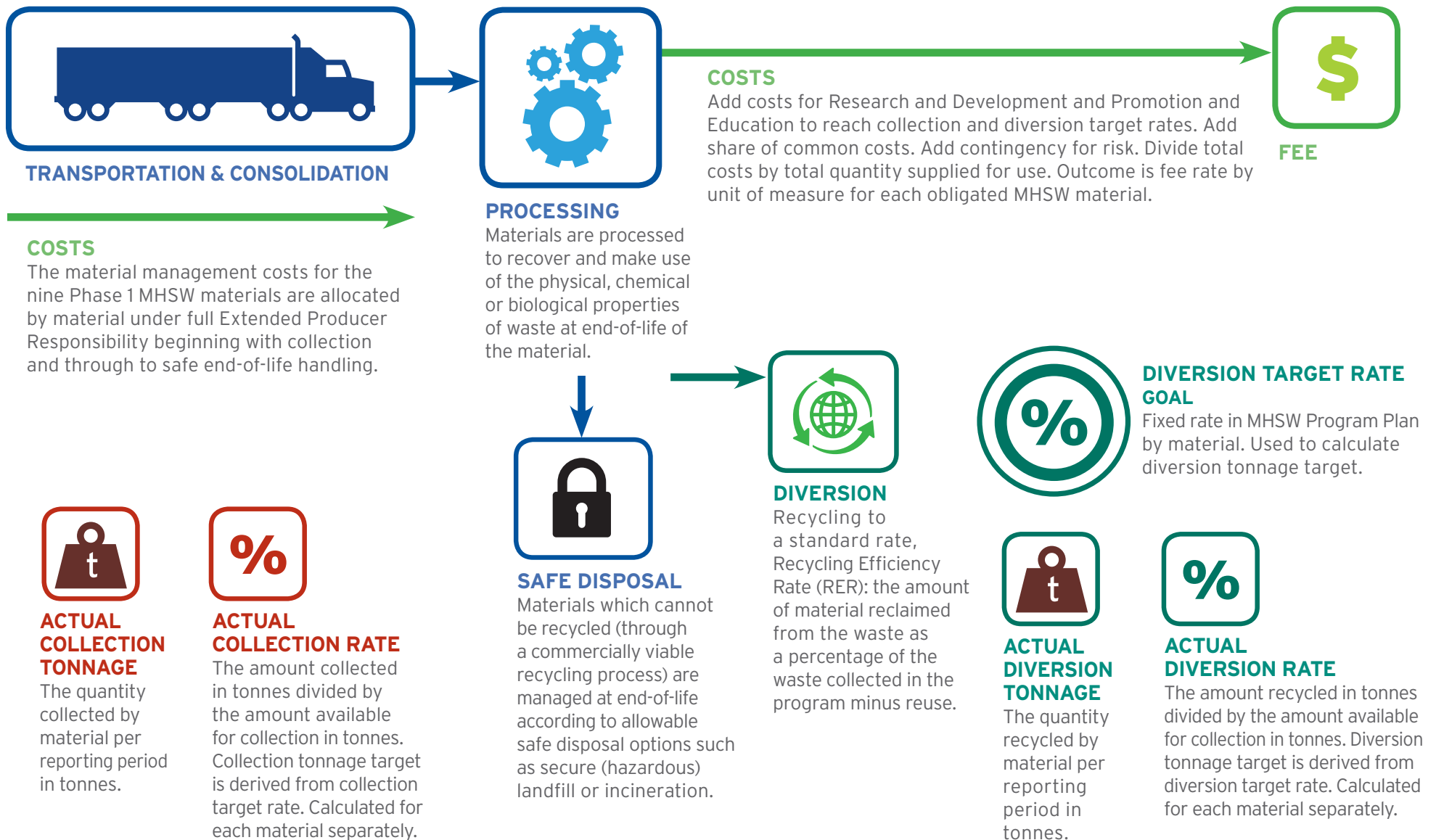
This chart follows the introduction of MHSM to the Ontario marketplace and illustrates how MHSW is handled through its end-of-life.

MHSM
MHSW

Municipal Hazardous or Special **Material**

Municipal Hazardous or Special **Waste**





Antifreeze (January 1, 2010 through December 31, 2010)

Definition:

Antifreeze means ethylene or propylene glycol used or intended for use as a vehicle engine coolant.



Uses/Generator:

- Residential
- Small quantity IC&I



Available for Collection:

Waste consists of antifreeze that is premixed and concentrated (diluted with water), less the loss factor of 50%, plus the additional waste water that was used for top-up and cleaning (with detergent) during flush and fill replacement, resulting in a waste glycol content of approximately 40%. Includes the containers in which the antifreeze was contained.



Collection:

- 10,000+ automotive service centres
- 292 do-it-yourself service centres
- Municipal depots and events



Measurement:

- Antifreeze collection has increased substantially since the first year of the program when 1,508 tonnes were collected in the initial 12 months. While 2010 collection is 51% higher for the period ending Dec. 31, 2010, targets were not met. In 2010, 162 DIY sites were added to the collection system for a total of 292 DIY, in addition to the 10,000+ automotive service centre sites that return waste antifreeze for safe handling. This increase in accessibility will assist with achieving the target in 2011. As well, effective January 1, 2011 a single category of "Automotive Plastics" will be used to report used oil and antifreeze containers, which will encourage more transporters to pick up containers for incentive fees.

2010 Period	Available for Collection	Collection Target Rate*	Collection Target Amount	Actual Collection Amount	Actual Collection Rate	Variance (Tonnes)
Q1/Q2	4,944	35%	1,730	1,135	23%	(595)
Q3/Q4	5,436	25%	1,359	1,141	21%	(218)

*Source data: Q1/Q2: Table 2.7 (Year 2), Phase 1 Plan, page 26; Q3/Q4: Table 5.9 (Year 1), CMHSW Plan, page 43



Collection Target Rate:

- The collection target rate in the original Phase 1 Program Plan (used for Q1/Q2 of 2010) did not include containers (*Table 2.7, footnote #6, page 27). The revised collection target rate in the CMHSW Program Plan (used for Q3/Q4 of 2010) took into account the gradual net decline in sales due to product reformulation for extended service intervals, and had a 25% separate rate for containers (*Tables 2.6, 2.7 in Vol II CMHSW).

2010 Period	Available for Collection	Diversion Target Rate*	Diversion Target Amount	Actual Diversion Amount	Actual Diversion Rate	Variance (Tonnes)
Q1/Q2	4,944	33%	1,631	1,135	23%	(496)
Q3/Q4	5,436	25%	1,359	1,141	21%	(218)

*Source data: Q1/Q2: Table 2.7 (Year 2), Phase 1 Plan, page 26; Q3/Q4: Table 5.10 (Year 1), CMHSW Plan, page 47



Actual Diversion Rate:

- Assumes a 95% diversion rate of actual collection amount for Q1/Q2; 100% for Q3/Q4 in setting the rate; however, as you can see 100% of the actual collection amount was safely diverted for all of 2010.



Financial Performance:

2010	Actual (\$)
Fee Revenue	858,430
Total Costs	1,421,867
Surplus (Deficit)	(563,436)
Accumulated Surplus (Deficit) at December 31/10	(445,946)

Fertilizers (January 1, 2010 through December 31, 2010)

Definition:

Means packaged product regulated under the *Fertilizer's Act* (Canada).



Uses/Generator:

- Residential
- Small quantity IC&I



Fee:

Measured return share. Applies to materials where sufficient data was not available to set accurate fees. Actual costs incurred through to safe end-of-life are allocated to the appropriate stewards.



Available for Collection:

The volume of registered fertilizers available for collection is difficult to estimate as the product is intended to be used up by the consumer. Q1/Q2 is measured return share. In Q3/Q4 with the introduction of the Consolidated Municipal Hazardous or Special Waste (CMHSW) rules (May 17, 2010), a fee rate by unit of measure was applied and stewards reported supplied into the marketplace and available for collection was estimated at 2% of supplied. For the full year, includes the container in which it was contained.



Collection:

- Municipal depots and events



Measurement:

2010 Period	Available for Collection	Collection Target Rate*	Collection Target Amount	Actual Collection Amount	Actual Collection Rate	Variance (Tonnes)
Q1/Q2	MRS	34%	0	44	-	44
Q3/Q4	49	n/a	n/a	61	125%	61

*Source data: Q1/Q2: Q1/Q2: Table 2.7 (Year 2), Phase 1 Plan, page 26; Q3/Q4: Table 5.9 (Year 1), CMHSW Plan, page 43



Actual Diversion Rate:

No known options are available for recycling fertilizers. Energy recovery is not an option for fertilizers as they have no energy value. Waste fertilizers are either sent to hazardous landfill or incineration. Fertilizers that can clearly be identified as not being a registered fertilizer can be reused by the municipality. Plastic containers are recycled where technically feasible. Film bags are sent to hazardous landfill or landfill.



Financial Performance:

2010	Actual (\$)
Fee Revenue	52,874
Total Costs	397,807
Surplus (Deficit)	(344,933)
Accumulated Surplus (Deficit) at December 31/10	(739,855)

Oil Containers (January 1, 2010 through December 31, 2010)

Definition:

Oil containers with a volume of 30 litres or less, which are used for the containment of lubricating oil products including:

- Petroleum-derived or synthetic
- Crankcase, engine and gear oils, and hydraulic, transmission and heat transfer fluids; and
- Fluids used for lubricating purposes in machinery or equipment.



Uses/Generator:

- Residential
- All IC&I



Available for Collection:

Oil containers are not a consumable product and on this basis all are available for collection post consumer use; however, a small percentage of the 20 litre pails are used and diverted by the agricultural industry. Taking this into account at an appropriate estimated weight, the available for collection is 93% of supplied.



Collection:

- 10,000+ automotive service centres
- 292 do-it-yourself service centres
- Municipal depots and events



Measurement:

2010 Period	Available for Collection	Collection Target Rate*	Collection Target Amount	Actual Collection Amount	Actual Collection Rate	Variance (Tonnes)
Q1/Q2	1,824	35%	639	1,250	69%	612
Q3/Q4	1,760	32%	563	1,347	77%	784

*Source data: Q1/Q2: Q1/Q2: Table 2.7 (Year 2), Phase 1 Plan, page 26; Q3/Q4: Table 5.9 (Year 1), CMHSW Plan, page 43



Collection Target Rate:

- Contributing factor to the lower target rate in the CMHSW plan was the low collection (12%) in the first nine months of the program. The revised target rate also took into consideration the state of market development for oil container recycling capacity at the time.



Actual Collection Rate:

- In April, 2010 an incentive rate increase (on average 26% by zone) for oil containers was implemented to drive collection. The lever was successful and collection increased significantly.

2010 Period	Available for Collection	Diversion Target Rate*	Diversion Target Amount	Actual Diversion Amount	Actual Diversion Rate	Variance (Tonnes)
Q1/Q2	1,824	28%	511	1,250	69%	740
Q3/Q4	1,760	32%	563	1,347	77%	784

*Source data: Q1/Q2: Table 2.7 (Year 2), Phase 1 Plan, page 26; Q3/Q4: Table 5.10 (Year 1), CMHSW Plan, page 47



Actual Diversion Rate:

- Assumes an 80% diversion rate of actual collection amount for Q1/Q2; 100% for Q3/Q4 in setting the rate; however, as you can see 100% of the actual collection amount was safely diverted for all of 2010.
- The incentive for processors was increased by nine cents which supported new entrants into processing oil containers in the province.



Financial Performance:

2010	Actual (\$)
Fee Revenue	3,212,013
Total Costs	5,619,448
Surplus (Deficit)	(2,407,435)
Accumulated Surplus (Deficit) at December 31/10	(1,082,345)

MHSW Performance Summary

Oil Filters (January 1, 2010 through December 31, 2010)

Definition:

Means filters produced and/or arriving into the province and which are for sale, directly or as part of a product, in Ontario.



Uses/Generator:

- Residential
- All IC&I



Available for Collection:

Oil filters are not consumable products and therefore 100% are available for collection post consumer use. It is the measurement of the residual oil in a waste filter plus the dry filter weight that determines the weight of oil filters available for collection. In May 2010 the wet weight per filter was reduced as it was determined that the available for collection tonnage weights were over-stated.



Collection:

- 10,000+ automotive service centres
- 292 do-it-yourself service centres
- Municipal depots and events



Measurement:

2010 Period	Available for Collection	Collection Target Rate*	Collection Target Amount	Actual Collection Amount	Actual Collection Rate	Variance (Tonnes)
Q1/Q2	6,698	74%	4,957	3,874	58%	(1,083)
Q3/Q4	6,911	65%	4,492	4,084	59%	(408)

*Source data: Q1/Q2: Table 2.7 (Year 2), Phase 1 Plan, page 26; Q3/Q4: Table 5.9 (Year 1), CMHSW Plan, page 43



Collection Target Rate:

- A contributing factor to the lower target rate in the CMHSW plan was improved product performance resulting in longer service intervals. The formula for available for collection changed in May to adjust the weight factor to correct over-weighting. This decreased the amount available for collection.



Actual Collection Rate:

- Performance increased slightly in the back half of the year. The increased commodity price for steel, which had a market price CAGR of 3.8% from July-December, will assist with collection recovery as will the additional DIY sites.

2010 Period	Available for Collection	Diversion Target Rate*	Diversion Target Amount	Actual Diversion Amount	Actual Diversion Rate	Variance (Tonnes)
Q1/Q2	6,698	69%	4,622	3,603	54%	(1,019)
Q3/Q4	6,911	65%	4,492	3,798	55%	(694)

*Source data: Q3/Q4: Table 5.10 (Year 1), CMHSW Plan, page 47



Diversion Target Rate:

- Assumes a 93% diversion rate of actual collection amount for Q1/Q2; 100% for Q3/Q4 in setting the rate.



Actual Diversion Rate:

- Oil filters are crushed and recycled as scrap metal. Some uses for recovered steel include re-bar and recycling into low grade steel reclamation. Waste oil is sent to the energy recovery market for use as waste derived fuel.



Financial Performance:

2010	Actual (\$)
Fee Revenue	11,745,436
Total Costs	8,329,234
Surplus (Deficit)	3,416,202
Accumulated Surplus (Deficit) at December 31/10	6,808,901

Paints and Coatings (January 1, 2010 through December 31, 2010)

Definition:

Means latex, oil and solvent-based architectural coatings, including paints and stains, whether tinted or untinted



Uses/Generator:

- Residential
- Small quantity IC&I



Available for Collection:

Paint is a consumable product but a typical consumer has product left over at the end of a project. It is estimated that about 10% of the original volume sold becomes leftover unwanted paint. The plan for 2010 estimated that about 20% of containers are not emptied, and contain some leftover paint. In 2009, the weight of the container was not factored into the collection weight. Note: spray paints were a container type in Q1/Q2; aerosols became their own obligated material in the CMHSW program plan (86% of MHSW aerosols are spray paints) and with the end of Phase 2 in July 2010 are counted back into paints and coatings for Q3/Q4. Paints and coatings includes the containers in which paints and coatings are contained.



Collection:

- Return to Retail
- Municipal depots and events



Measurement:

2010 Period	Available for Collection	Collection Target Rate*	Collection Target Amount	Actual Collection Amount	Actual Collection Rate	Variance (Tonnes)
Q1/Q2 Aerosols in	5,413	55%	2,977	5,577	103%	2,600
Q3/Q4 Aerosols out	5,707	37%	2,324	5,588	90%	3,264
Q3/Q4 Aerosols only	505	49%				

*Source data: Q1/Q2: Table 2.7 (Year 2), Phase 1 Plan, page 26; Q3/Q4: Table 5.9 (Year 1), CMHSW Plan, page 43



Actual Collection Rate:

- As anticipated, collection in 2010 continued to exceed targets due to the heightened awareness of the program with the launch of Orange Drop on July 1, 2010 which prompted consumers to dispose of old unused and unwanted paint.
- Return to Retail locations grew from 154 in 2009 to 292 in 2010 (an increase of 90%) which increased consumer accessibility, another factor in collection growth.

2010 Period	Available for Collection	Diversion Target Rate*	Diversion Target Amount	Actual Diversion Amount	Actual Diversion Rate	Variance (Tonnes)
Q1/Q2 Aerosols in	5,413	48%	2,598	4,122	76%	1,523
Q3/Q4 Aerosols out	5,707	22%	1,438	4,135	67%	2,697
Q3/Q4 Aerosols only	505	42%				

*Source data: Q1/Q2: Table 2.7 (Year 2), Phase 1 Plan, page 26; Q3/Q4: Table 5.10 (Year 1), CMHSW Plan, page 47



Diversion Target Rate:

- It is estimated that 85% of leftover latex and alkyd paint is re-useable/recyclable using existing technology - this applies to Q1/Q2. For Q3/Q4, the CMHSW plan obligated a broader range of paints and coatings with a resulting recycling feasibility of 60% (results in a 22% diversion rate of the 37% available for collection).



Actual Target Rate:

- Actual diversion performance for paints and coatings in 2010 was a recycling efficiency rate of 74%.



Financial Performance:

2010	Actual (\$)
Fee Revenue	18,411,104
Total Costs	17,619,579
Surplus (Deficit)	791,525
Accumulated Surplus (Deficit) at December 31/10	(4,443,649)

Pesticides (January 1, 2010 through December 31, 2010)

Definition:

Pesticides include fungicides, herbicides, insecticides and certain repellents registered under the Pest Control Products Act (Canada) bearing the "DOMESTIC" classification. By definition, commercial, agricultural and restricted classifications are excluded.



Uses/Generator:

- Residential
- Small quantity IC&I



Fee:

Measured return share. Applies to materials where sufficient data was not available to set accurate fees. Actual costs incurred through to safe end-of-life are allocated to the appropriate stewards.



Available for Collection:

Beginning April 22, 2009, all cosmetic pesticides were banned for use and sale in the province of Ontario. While there are still pesticides allowable for use, none are permitted for cosmetic purposes. As a result of the pesticide ban, there will be a period in which sales will decrease dramatically, while quantities available for collection may rise significantly as consumers attempt to return banned products. A collection rate was not established for 2010.



Collection:

- Municipal depots and events



Measurement:

2010 Period	Available for Collection	Collection Target Rate*	Collection Target Amount	Actual Collection Amount	Actual Collection Rate	Variance (Tonnes)
Q1/Q2	MRS	52%	0	27	-	27
Q3/Q4	43	n/a	n/a	29	67%	29

*Source data: Q1/Q2: Table 2.7 (Year 2), Phase 1 Plan, page 26; Q3/Q4: Table 5.9 (Year 1), CMHSW Plan, page 43



Actual Diversion Rate:

No known options are available for recycling pesticides. Waste pesticides are either sent to hazardous landfill or sent for incineration. Plastic containers are recycled where technically feasible. Steel aerosols are recycled as scrap metal.



Financial Performance:

2010	Actual (\$)
Fee Revenue	25,251
Total Costs	376,911
Surplus (Deficit)	(351,660)
Accumulated Surplus (Deficit) at December 31/10	(508,051)

Pressurized Containers (January 1, 2010 through December 31, 2010)

Definition:

Means:

- Seamless Cylinders and Tubes: TC-3AAM, TC-3AAXM, TC-3ALM, TC-3AM, TC-3ANM, TC-3ASM, TC-3AXM, TC-3EM, and TC-3HTM
- Welded Cylinders and Spheres: TC-4AAM-33, TC-4BM, TC-4BM17ET, TC-4BAM, TC-4BWM, TC-4DM, TC-4DAM, TC-4DSM and TC-4EM
- Non-refillable Containers: TC-39M
- Composite Cylinders: TC-3FCM and TC-3HWM
- Insulated Cylinders: TC-4LM
- Cylinders for Acetylene Service: TC-8WM and TC-8WAM



Uses/Generator:

- Residential
- Small quantity IC&I



Available for Collection:

Refillable: 90% of the refillable pressurized containers supplied to the marketplace are managed through a life cycle management program leaving 10% available for collection under the MHSW Program.

Non-Refillable: Commonly referred to as the single-use cylinders, 100% are available for collection (uses a standard 0.45kg for weight conversion).



Collection:

- Provincial Parks Program
- Municipal depots and events



Measurement:

- Two reporting categories: Refillable and Non-Refillable

Refillable

2010 Period	Available for Collection	Collection Target Rate*	Collection Target Amount	Actual Collection Amount	Actual Collection Rate	Variance (Tonnes)
Q1/Q2	882	94%	829	284	32%	(545)
Q3/Q4	1,123	83%	932	283	25%	(649)

*Source data: Q1/Q2: Table 2.7 (Year 2), Phase 1 Plan, page 26; Q3/Q4: Table 5.9 (Year 1), CMHSW Plan, page 43

Non-Refillable

2010 Period	Available for Collection	Collection Target Rate*	Collection Target Amount	Actual Collection Amount	Actual Collection Rate	Variance (Tonnes)
Q1/Q2	321	16%	51	55	17%	4
Q3/Q4	407	14%	57	308	76%	251

*Source data: Q1/Q2: Table 2.7 (Year 2), Phase 1 Plan, page 26; Q3/Q4: Table 5.9 (Year 1), CMHSW Plan, page 43



Actual Collection Rate:

- Since 2004, Ontario Parks have managed a program to reclaim non-refillable containers left behind by campers. In 2010, the Orange Drop Program expanded to include the pick-up of these containers in the provincial parks. For 2011, we are adding orange cages in 91 participating parks to encourage campers to dispose of their pressurized containers through the Orange Drop Program.

Refillable

2010 Period	Available for Collection	Diversion Target Rate*	Diversion Target Amount	Actual Diversion Amount	Actual Diversion Rate	Variance (Tonnes)
Q1/Q2	882	94%	829	233	26%	(596)
Q3/Q4	1,123	83%	932	283	25%	(649)

*Source data: Q1/Q2: Table 2.7 (Year 2), Phase 1 Plan, page 26; Q3/Q4: Table 5.10 (Year 1), CMHSW Plan, page 47

Non-Refillable

2010 Period	Available for Collection	Diversion Target Rate*	Diversion Target Amount	Actual Diversion Amount	Actual Diversion Rate	Variance (Tonnes)
Q1/Q2	321	16%	51	42	13%	(9)
Q3/Q4	407	14%	57	308	76%	251

*Source data: Q1/Q2: Table 2.7 (Year 2), Phase 1 Plan, page 26; Q3/Q4: Table 5.10 (Year 1), CMHSW Plan, page 47



Actual Diversion Rate:

- Assumes 100% diversion rate of actual collection amount and this rate was achieved in Q3/Q4 2010 by our processors.



Financial Performance:

Refillable

2010	Actual (\$)
Fee Revenue	130,528
Total Costs	273,807
Surplus (Deficit)	(143,279)
Accumulated Surplus (Deficit) at December 31/10	(222,268)

Non-Refillable

2010	Actual (\$)
Fee Revenue	862,683
Total Costs	714,305
Surplus (Deficit)	148,378
Accumulated Surplus (Deficit) at December 31/10	132,380

Single-Use Dry Cell Batteries (January 1, 2010 through December 31, 2010)

Definition:

Batteries that are one or more cells, including case, terminals and markings. The source of electrical energy is obtained by the direct conversion on chemical energy that is not designed to be charged by any other electrical source.



Uses/Generator:

- Residential
- Small quantity IC&I



Available for Collection:

All single-use dry cell batteries are available for collection; however, we assume an average three year life span and a five year hoarding pattern (for 30% of the batteries) in calculating the available for collection for each year.



Collection:

- Libraries, community centres, office and government buildings
- Return to Retail Program
- Municipal depots and events



Measurement:

2010 Period	Available for Collection	Collection Target Rate*	Collection Target Amount	Actual Collection Amount	Actual Collection Rate	Variance (Tonnes)
Q1/Q2	3,529	7%	247	318	9%	71
Q3/Q4	4,152	20%	830	444	11%	(386)

*Source data: Q1/Q2: Table 2.7 (Year 2), Phase 1 Plan, page 26; Q3/Q4: Table 5.9 (Year 1), CMHSW Plan, page 43



Collection Target Rate:

- The collection targets increased significantly with the CMHSW Program Plan, and will continue to grow by 5% per annum for the next five years. To address the shortfall in performance and to achieve these aggressive new targets, a Battery Incentive Program was launched February 1, 2011. This program is designed to expand the collection network by opening the program up to approved transporters to set up convenient collection sites for primary batteries.

2010 Period	Available for Collection	Diversion Target Rate*	Diversion Target Amount	Actual Diversion Amount	Actual Diversion Rate	Variance (Tonnes)
Q1/Q2	3,529	2%	71	274	8%	203
Q3/Q4	4,152	14%	581	382	9%	(199)

*Source data: Q1/Q2: Table 2.7 (Year 2), Phase 1 Plan, page 26; Q3/Q4: Table 5.9 (Year 1), CMHSW Plan, page 43



Diversion Target Rate:

- Assumes a 22% diversion rate of actual collection amount for Q1/Q2 and a 71% diversion rate of actual collection amount for Q3/Q4 in setting the rate for single-use dry cell batteries.



Financial Performance:

2010	Actual (\$)
Fee Revenue	3,581,701
Total Costs	3,188,042
Surplus (Deficit)	393,660
Accumulated Surplus (Deficit) at December 31/10	189,119

Solvents (January 1, 2010 through December 31, 2010)

Definition:

Liquid products that are intended to be used to dissolve or thin a compatible substance and:

1. Are comprised of 10% or more of water-immiscible liquid hydro-carbons, including halogen substituted liquid hydrocarbons; or
2. Are flammable as described in part (c) of "municipal hazardous waste" in Ontario Reg. 542.

Water-miscibility - Means the ability of a material (or mixture) to mix uniformly with water, without separating. A 1:5 ratio of material to water, at 20°C does not display visible separation in less than 1 hour. This includes mixing by dissolving, reacting, suspending, or dispersing. [ref. CSA Z752].



Uses/Generator:

- Residential
- Small quantity IC&I



Available for Collection:

It is estimated that for Q1/Q2, 35% of solvents are available for collection as waste. In the CMHSW Program Plan, solvents were merged into a larger Flammable category which included gasoline, automotive additives, windshield washer fluid, and a wide assortment of other flammable materials. Under this commingled category it is estimated that for Q3/Q4, 42% of solvents supplied into the market were available for collection as waste. Solvents include the containers in which they are contained.



Collection:

- Municipal depots and events



Measurement:

2010 Period	Available for Collection	Collection Target Rate *	Collection Target Amount	Actual Collection Amount	Actual Collection Rate	Variance (Tonnes)
Q1/Q2	787	39%	307	128	16%	(179)
Q3/Q4	946	46%	435	504	53%	69

*Source data: Q1/Q2: Table 2.7 (Year 2), Phase 1 Plan, page 26; Q3/Q4: Table 5.9 (Year 1), CMHSW Plan, page 43



Actual Collection Rate:

- The only collection channel for solvents at this time is municipal services. An awareness message on this material has now been added to municipal calendars and advertisements going forward where space permits.
- There may be some reporting confusion with the merging of solvents with flammables in the CMHSW Program Plan and the subsequent divorce of solvents from flammables with the end of Phase 3 in July, 2010; a thorough audit of solvents and their 10 reporting waste classes will be undertaken in 2011.



Actual Diversion Rate:

- No technical process for recycling solvents currently exists; however, there is on-going R&D by processors which should result in a viable recycling method for solvents in the future. It is hoped that solvents can be recycled depending on the quality of the material and types of contamination that is often included in with the solvent.



Financial Performance:

2010	Actual (\$)
Fee Revenue	546,661
Total Costs	1,191,433
Surplus(Deficit)	(644,772)
Accumulated Surplus (Deficit) at December 31/10	32,656

Independent Auditor's Report



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Toronto ON M5J 2J8 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, 2010, and the statements of changes in net assets, operations and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Organization as at December 31, 2010 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

BDO Canada LLP

Chartered Accountants, Licensed Public Accountants
March 22, 2011
Toronto, Ontario

Balance Sheet

December 31

2010

2009

ASSETS

Current

Investments (Note 3)	\$ 106,272,427	\$ 76,286,121
Accounts receivable	4,731,215	7,712,633
Prepaid expenses and deposits	287,568	341,112

111,291,210 84,339,866

Capital and intangible assets (Note 4) 2,116,166 972,717

\$ 113,407,376 \$ 85,312,583

LIABILITIES AND NET ASSETS

Current

Bank overdraft (Note 5)	\$ 16,399,699	\$ 6,408,237
Accounts payable and accrued liabilities	43,340,692	30,166,423
Deferred revenue (Note 6)	42,056,362	30,576,188

101,796,753 67,150,848

Net Assets

Invested in capital and intangible assets	2,116,166	972,717
Unrestricted	2,713,165	7,742,558
Internally restricted (Note 7)	6,781,292	9,446,460

11,610,623 18,161,735

\$ 113,407,376 \$ 85,312,583

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

On behalf of the Board:

Director

Director

Financial Statements

Statement of Changes in Net Assets

For the year ended December 31, 2010

	Invested in Intangible and Capital Assets	Unrestricted	Internally Restricted	2010 Total	2009 Total
Balance, beginning of year	\$ 972,717	\$ 7,742,558	\$ 9,446,460	\$ 18,161,735	\$16,303,038
Excess (deficiency) of revenue over expenses for the year	(249,622)	(4,514,293)	(1,787,197)	(6,551,112)	1,858,697
Investment in capital assets	254,009	(254,009)	–	–	–
Investment in Enterprise Information System (Note 7)	1,139,062	(261,091)	(877,971)	–	–
Balance, end of year	\$ 2,116,166	\$ 2,713,165	\$ 6,781,292	\$ 11,610,623	\$ 18,161,735

Statement of Operations

For the year ended December 31

	Actual	Budget	2010 Variance	2009 Actual
Revenue				
Blue Box program steward fees	\$ 89,397,622	\$ 87,379,374	\$ 2,018,248	\$80,635,640
MHSW program steward fees (Phase I)	39,426,587	40,666,576	(1,239,989)	25,876,102
MHSW program steward fees (Phase II)	–	6,451,422	(6,451,422)	–
Investment income (Note 8)	916,490	795,000	121,490	1,662,932
	129,740,699	135,292,372	(5,551,673)	108,174,674
Expenses				
Blue Box Program				
Municipal Transfer Payments	65,639,117	65,640,392	(1,275)	60,161,829
Continuous Improvement Fund (Note 10(c))	16,410,098	16,410,098	–	15,164,559
Research and development	1,936,989	3,520,000	(1,583,011)	64,752
Enterprise Information System	1,124,283	515,000	609,283	704,865
	85,110,487	86,085,490	(975,003)	76,096,005
MHSW Program				
Direct material costs (Phase I)	29,768,541	28,729,412	1,039,129	19,763,452
Direct material costs (Phase II)	7,612,039	6,045,723	1,566,316	–
Shared promotion and education	3,637,916	2,263,371	1,374,545	1,908,700
Program development and start up	1,709,381	1,233,495	475,886	1,351,771
	42,727,877	38,272,001	4,455,876	23,023,923
Common costs				
Program management	6,999,055	6,999,591	(536)	5,933,636
Waste Diversion Ontario and Ministry of Environment charges (Note 9)	1,454,392	1,475,000	(20,608)	1,262,413
	8,453,447	8,474,591	(21,144)	7,196,049
Total expenses	136,291,811	132,832,082	3,459,729	106,315,977
Excess (deficiency) of revenue over expenses for the year	\$ (6,551,112)	\$ 2,460,290	\$ (9,011,402)	\$ 1,858,697

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

Statement of Cash Flows

For the year ended December 31	2010	2009
Cash provided by (used in)		
Operating activities		
Excess (deficiency) of revenue over expenses for the year	\$ (6,551,112)	\$ 1,858,697
Adjustments to reconcile excess (deficiency) of revenue over expenses for the year to cash provided by operating activities		
Amortization of capital and intangible assets	249,622	9,078
Non-cash component of investment income	141,881	(453,239)
Changes in non-cash working capital balances		
Accounts receivable	2,981,418	(847,949)
Prepaid expenses and deposits	53,544	(312,219)
Accounts payable and accrued liabilities	13,174,269	6,529,897
Deferred revenue	11,480,174	9,245,514
	21,529,796	16,029,779
Investing activities		
Purchase of investments	(64,000,000)	(47,500,000)
Proceeds of investments	33,871,813	18,112,763
Purchase of capital and intangible assets	(1,393,071)	(969,827)
Payment from Waste Diversion Ontario	-	681,762
	(31,521,258)	(29,675,302)
Increase in bank overdraft during the year	(9,991,462)	(13,645,523)
Cash (bank overdraft), beginning of year	(6,408,237)	7,237,286
Bank overdraft, end of year	\$ (16,399,699)	\$ (6,408,237)

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

Notes to Financial Statements

December 31, 2010

1. Business Organization and Operations

Stewardship Ontario ("Organization") is an Industry Funding Organization created under Section 24 of the Waste Diversion Act, 2002 ("WDA") to operate waste diversion programs on behalf of Waste Diversion Ontario ("WDO").

On February 14, 2003, the Organization was formally incorporated in the Province of Ontario as a corporation without share capital. The first Blue Box Program Plan was approved by the Minister of the Environment in December 2003 and the program commenced operations in February 2004.

On December 11, 2006, the Minister of the Environment prescribed Municipal Hazardous or Special Waste ("MHSW") as a designated waste under the WDA. The Minister required that WDO develop a waste diversion program for MHSW, and the Organization to be the Industry Funding Organization ("IFO"). The Minister of the Environment approved the Phase 1 Program Plan in November 2007. The MHSW officially commenced operations July 1, 2008.

In a letter dated September 22, 2009, the Minister of the Environment approved the commencement of the Consolidated MHSW plan, which added 14 new material categories to the program, to commence July 1, 2010. On July 20, 2010, the Minister of the Environment, through Ontario Regulation 298/10, halted and under Ontario Regulation 396/10 ultimately cancelled the expansion of the Consolidated MHSW program. This put an end to the Organization's ability to collect steward fees against the new materials and definitions under the Consolidated MHSW plan. Material collection and the associated obligation to pay for these costs continued to exist through 2010 for all materials under the Consolidated MHSW program. The Minister of the Environment has committed to reimburse the Organization for all costs deemed appropriate related to development, start-up and implementation of the Consolidated MHSW program and for the management of the materials introduced in the expanded of program. The Organization is currently developing a new MHSW Program Plan that will include the original nine materials of Phase 1 of the MHSW program.

2. Significant Accounting Policies

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

(a) Revenue Recognition

Steward fees for stewards registered with the Organization are recognized as revenue based on reported tonnages. Steward reported tonnages for prior years' obligations and revenues resulting from compliance and enforcement activities are recognized when the amount can be reasonably estimated and collection is reasonably assured.

The Organization follows the deferral method of accounting for revenues collected and administered on behalf of the Effectiveness & Efficiency Fund ("E&E"), the Continuous Improvement Fund ("CIF") and the Glass Market Development Fund. Amounts received for these programs are recognized as revenue when the related expenses are incurred.

Financial Statements

2. Significant Accounting Policies (continued)

(b) Investments

The Organization designates its investments as held for trading and they are stated at their fair value. Realized and unrealized gains (losses) are recorded in the statement of operations. The Organization accounts for its investments on a settlement date basis and transaction costs associated with investment activities are included in the statement of operations.

Fair value of investments are determined as follows:

Bonds, fixed income securities and short-term deposit receipts are valued at year-end quoted market prices.

(c) Capital Assets

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

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

(d) Intangible Assets

Intangible assets with finite lives are recorded at cost and are amortized over their useful life, beginning once the asset is ready for use. The Enterprise Information System is being amortized on a straight line basis over 5 years.

(e) Financial Instruments

The Organization accounts for bank overdraft as held for trading and is carried at fair value. Accounts receivable is classified as loans and receivables and are initially measured at fair value and carried at amortized cost. Accounts payable and accrued liabilities are classified as other financial liabilities and are initially measured at fair value and carried at amortized cost.

The carrying values of bank overdraft, accounts receivable and accounts payable and accrued liabilities approximate their fair values due to the relative short periods to maturity of these items or because they are receivable or payable on demand.

(f) Use of Estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and reported amounts of revenues and expenses during the reporting period. Significant estimates include estimates of unreported tonnages and collectability of the related steward fees and accrued post collection costs. Actual results could differ from management's best estimates as additional information becomes available in the future.

3. Investments

Investments consist of money market pooled funds, guaranteed investment certificates and bonds that bear interest at 1.10% to 6.00% (2009 - 0.35% to 6.00%), and mature between September 2011 and April 2020. Included in investments is \$542,050 (2009 - \$254,858) of cash held with broker. The decrease in market value of investments for

the year ended December 31, 2010 amounted to \$400,940 (2009 - increase of \$434,859) which is included in investment income (Note 8).

4. Capital and Intangible Assets

	Cost	Accumulated Amortization	2010 Net Book Value	2009 Net Book Value
Capital assets				
Computer equipment	\$ 106,155	\$ 28,069	\$ 78,086	\$ 30,077
Furniture and fixtures	214,597	27,121	187,476	25,476
	320,752	55,190	265,562	55,553
Intangible asset				
Enterprise Information System	2,056,227	205,623	1,850,604	917,164
	\$ 2,376,979	\$ 260,813	\$ 2,116,166	\$ 972,717

The intangible asset represents an Enterprise Information System that was under development during 2009 and 2010 (Note 7). The system was launched in February 2010. All post launch costs related to the system and its ongoing operation were reflected in the Statement of Operations.

5. Bank Overdraft

	2010	2009
Cash in bank	\$ 571,354	\$ 9,745,694
Outstanding cheques	(16,971,053)	(16,153,931)
	\$ (16,399,699)	\$ (6,408,237)

6. Deferred Revenue

	2010	2009
Blue Box Program		
Glass Market Development Fund	\$ 666,017	\$ 666,175
Effectiveness & Efficiency Fund	2,278,877	4,818,903
Continuous Improvement Fund	39,111,468	25,091,110
	\$ 42,056,362	\$ 30,576,188

Financial Statements

Deferred revenue in the Blue Box Program represents unspent resources that are externally restricted for various programs.

Each year, the Organization is directed to hold back a portion of the municipal blue box obligation for the Continuous Improvement Fund ("CIF"); see Note 10(c) for further details around the fund. The CIF is managed by external parties and directs the Organization to release funds as required.

Commitments related to the above deferred revenues have been explained in Note 10.

7. Internally Restricted Net Assets

	2010	2009
Sustaining Fund	\$ 3,500,000	\$ 3,500,000
Plastic Market Development Fund	3,281,292	5,068,489
Enterprise Information System Fund	-	877,971
	\$ 6,781,292	\$ 9,446,460

During 2006, the directors recognized the need for a Sustaining Fund to enable the Organization to carry out its non-profit activities and satisfy all of its obligations for a period of one year and therefore internally restricted \$3,500,000 for this purpose. During 2009, the directors reallocated \$2,500,000 of this balance to the Enterprise Information System Fund. As at December 31, 2009 the directors reallocated \$2,500,000 from unrestricted net assets to the Sustaining Fund to replenish the Fund.

During 2007, the directors authorized the establishment of a fund in 2008 for investment in infrastructure for plastic markets and activities for their development. An initial investment of \$2,400,000 was funded by Blue Box stewards of plastic packaging. During 2009, the directors internally restricted an additional \$3,000,000. A further commitment was approved by the directors of \$3,000,000 per year in each of 2011 and 2012 to plastic market development. During the year, \$1,787,197 (2009 - \$64,752) was spent on plastics market development activities. Commitments related to the fund are explained in Note 10(d).

During 2009, as noted above, the directors reallocated \$2,500,000 to cover the expected costs of a new information system. Development began in September 2009, with the launch of the system in February 2010. All spending on system development was completed in 2010 and the total system development costs are now reflected in intangible assets.

8. Investment Income

	2010	2009
Interest income	\$1,505,048	\$1,409,258
Loss on sale of investments	(13,072)	(60,166)
	1,491,976	1,349,092
Adjustment to fair value	(400,940)	434,859
Investment expenses	(174,546)	(121,019)
	\$ 916,490	\$ 1,662,932

9. Waste Diversion Ontario

The WDO caused the Organization to be created under the WDA to act as an IFO for waste diversion programs (Note 1). Under the Blue Box and MHSW program agreements, the Organization is required to collect fees to cover both program operations and the program specific and common costs of WDO that relate to program oversight. The total payments for WDO expenses during the year were \$1,344,392 (2009 - \$1,108,844). In 2010, \$161,037 was included in MHSW Program development and start up (2009 - \$nil).

10. 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, 2010, the Organization has paid \$2,235,508 and has fully committed the remaining balance for glass market development projects.

(b) Effectiveness & Efficiency Fund ("E&E Fund")

The intent of the E&E Fund was to provide support to Ontario municipalities to help reduce the cost of their Blue Box recycling programs and increase the tonnes recovered. This initiative was part of the Blue Box Program Plan that was created as a result of Ontario's Waste Diversion Act, 2002, and an integral part of the plan to help Ontario achieve the Minister's recycling target of 60% diversion of Blue Box waste by 2008 and to maximize efficiency of individual Blue Box municipal recycling programs and of the system as a whole. As of January 1, 2008, the fund was collapsed and there still remains funds that are unspent. The E&E Fund contributions were fully committed by the end of 2008 and through 2009 approved E&E Fund projects continued to be implemented. In 2009, the Municipal Industry Program Committee ("MIPC") agreed that unspent E&E Fund Contributions would be transferred to the Continuous Improvement Fund as projects were completed. At December 31, 2010, the E&E Fund balance is \$2,278,877, of which it is anticipated that approximately \$1,376,000 will be unspent and transferred once all approved projects are completed.

(c) Continuous Improvement Fund ("CIF")

The CIF provides grants and loans to municipalities to execute projects that will increase the efficiency of municipal Blue Box recycling and help boost system effectiveness. The CIF started in 2008 with a three year mandate to direct 20% of the Organization's municipal funding obligation to support projects that will identify and implement best practices, examine and test emerging technologies, employ innovative solutions to increase Blue Box materials marketed, and promote gains in cost effectiveness that can be implemented province wide. Twenty per cent of the annual municipal obligation funded by the Organization's stewards is passed along to the CIF each year and any unpaid amounts are reflected in Deferred Revenue (Note 6). As of December 31, 2010, approved project funding and related commitments for the CIF totalled approximately \$27,200,000 of the total fund balance of \$39,111,468.

10. Commitments (continued)

(d) Plastic Market Development Fund

(i) Entropex Inc. Agreement:

In February 2010, the Organization entered into a financial assistance agreement with Entropex Inc. (a partnership of Unitec Inc. and 629728 Ontario Limited) by way of a grant of a minimum of \$1,289,803. The assistance is intended to support a project that would ultimately determine whether Entropex can successfully process and market mixed rigid plastics from the Ontario residential Blue Box recycling system. To date, approximately \$1,169,000 has been paid.

(ii) EFS Plastics Inc. Agreement:

In February 2010, the Organization along with WDO, entered into an agreement with EFS Plastics Inc. ("EFS") to assist EFS to purchase additional equipment for its Elmira film and mixed rigid plastics processing plant to increase annual processed throughput. The combined commitment by WDO and the Organization was \$1,118,750. To date, approximately \$240,000 has been paid.

(e) Realty Lease Agreements

In December 2008, the Organization entered into a lease agreement commencing March 2009. In November 2009, the Organization entered into an additional lease agreement commencing March 2010. Under the terms of the agreements, the Organization is committed to pay basic rent plus operating costs over the next five years approximately as follows:

2011	\$ 279,800
2012	280,700
2013	283,700
2014	254,200
2015	235,700

11. Financial Instrument Risk Exposure and Management

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

(a) General Objectives, Policies and Processes:

The Board and management are responsible for the determination of the Organization's risk management objectives and policies and designing operating processes that ensure the effective implementation of the objectives and policies. In general, the Organization measures and monitors risk through preparation and review of monthly reports by management.

(b) Credit Risk:

Financial instruments potentially exposed to credit risk include cash, investments and accounts receivable. Management considers its exposure to credit risk over cash to be remote as the Organization holds cash deposits at a major Canadian bank. Management considers its exposure to credit risk over investments to be remote as the Organization invests in federal or provincial government securities, securities backed by any chartered bank, or guaranteed investment certificates. Accounts receivable are not significantly concentrated, monitored regularly for collections, and the carrying amount of accounts receivable represents the maximum credit risk exposure.

From time to time, materials could be the subject of an Industry Stewardship Plan ("ISP"), which is allowable under the Waste Diversion Act, 2002. Successful ISP's may call into question the Organization's ability to collect monies related to accumulated material deficits or those spent on plan development, shared promotion and education and other common costs.

(c) Interest Rate Risk:

The Organization is exposed to interest rate risk from fluctuations in interest rates depending on prevailing rates at renewal of investments. To manage this exposure, the Organization invests mainly in fixed income securities (federal or provincial government securities, guaranteed investment certificates or securities backed by any chartered bank), and cash and/or money market investments as determined by the Organization's portfolio manager and in accordance with the Organization's investment policy. To further manage interest rate risk, the Organization's investment portfolio has been laddered so that investment maturities are staggered over the long term. Although the overall philosophy of the investment fund is to hold securities until maturity, trading of the portfolio is allowed should the potential for a significant capital gain arise through the movement of interest rates. This investment approach ensures that the portfolio achieves stable and reliable rates of return with minimal interest rate reinvestment risk, and minimal transaction costs.

(d) Liquidity Risk:

Liquidity risk is the risk that the Organization will not be able to meet its obligations as they come due. The two programs operated by the Organization carry substantially different risks in the ability to forecast and control expenses. Management has taken steps to ensure that the Blue Box and MHSW programs will have sufficient working capital available to meet obligations which it is unable to cover from program revenues in the short term.

12. Capital Management

The Organization defines its capital as the amounts included in its net assets balances.

When managing its net assets, the Organization's objective is to safeguard its ability to continue as a going concern to fulfil its mandate as set out in Note 1.

Capital includes capital invested in capital and intangible assets, internally restricted net assets, and unrestricted net assets. The Organization is not subject to externally

12. Capital Management (continued)

imposed capital requirements, but the Board has certain imposed restrictions on the use of its net assets as indicated in Note 7.

The Organization's capital management of the internally restricted reserve funds is described in Note 7.

13. Comparative Figures

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

14. Subsequent Events

The Minister of the Environment has committed to reimbursing costs incurred by the Organization in relation to plan development and start up for the Consolidated MHSW Program and for operating costs related to the materials covered by the expansion of the Consolidated MHSW Program. To date, the Organization has submitted a claim for these costs. The claim in relation to development and start up of the Consolidated MHSW Program was submitted to the Ministry of the Environment in January 2011 and totals \$9.68 million. Validation efforts by the Ministry are ongoing and any proceeds will be recorded in the Organization's financial statements when funds are received.

Governance and Board Performance

Major Governance Restructuring Initiative

Two thousand and ten marked a watershed year for Stewardship Ontario's governance. With the assistance of Canada's renowned Director's College at the DeGroot School of Business and the Caldwell Partners, Stewardship Ontario adopted a competency-based governance model and recruited 14 industry directors (from a pool of over 400 well-qualified applicants) and one independent director. Another independent director appointment was pending at the end of 2010 with a full complement of 14 industry directors and two independents expected to be in place by the end of 2011.

Industry directors must be employees of steward companies or employees of industry associations whose membership comprises a significant steward sector. Independent directors on the other hand must have no commercial connection to any stewardship program and are selected on the basis of their public interest perspective. Our governance framework requires that the Board comprise a number of competencies and our recruitment efforts focused on attracting a variety of candidates with financial, legal, supply chain, sustainability and human resource skills as well as sound knowledge of the retail and consumer

products business. Currently three of Stewardship Ontario's directors and CEO hold professional director certification and another three directors are pursuing their designation.

The Board's primary duty is to act in the best interests of Stewardship Ontario and to oversee the corporation's operations including fiscal management and reporting, risk management, legal and statutory compliance and performance evaluation. The Board sets Stewardship Ontario's strategic direction and policies and discharges the fiduciary obligations for stewards and other stakeholder groups under the *Waste Diversion Act*.

Accountability

A fundamental component of Stewardship Ontario's accountability is a set of policies and practices codified in its Director's Guide that sets out explicit terms of reference for the Board, the chair, individual directors, and the CEO as well as a Code of Conduct that includes stringent conflict of interest guidelines. Stewardship Ontario's governance framework also includes terms of reference for board committees and specifies critical oversight processes that the Board must undertake of the CEO and of its own performance. Board committees are also required to file annual work plans scheduling critical

review and approval processes to be undertaken by each committee. Copies of the Director's Guide are available for viewing at www.stewardshipontario.ca/stewards/governance

Three committees assist the board in executing its fiduciary obligations:

- **Finance, Audit, Risk and Performance**

This Committee provides a variety of critical oversight functions including financial reporting and disclosure, the annual audit process, assessing the corporation's risk and control environment, and monitoring performance against approved program plans to ensure it complies with requirements.

- **Governance**

As a statutory corporation, Stewardship Ontario has a public duty and obligation. As such, the Governance Committee is charged with ensuring that the purpose, objects and structure of the company are consistent with its obligations and its governance regulation (O. Reg. 33/08). Each year directors are required to provide a written evaluation of Board, committee and individual performance that is reported to the Board and forms the foundation for continuous improvement initiatives.

- **Human Resources & Compensation**

As Stewardship Ontario has just completed one full year under its

own management (previously the organization was operated by environmental services consultants), the focus of this committee has been to establish the organization's compensation and performance evaluation framework and to recommend the salary structure for the CEO and senior management. The committee also is charged with ensuring Stewardship Ontario has an appropriate organizational structure and succession plan.

Transparency

Stewardship Ontario provides its stewards and stakeholders with a comprehensive overview of its operations and finances through its annual report and audited financial statements, quarterly reporting to regulators on program performance, annual consultations with stewards on program fees and by maintaining a website for stewards and the public that includes information on approved program plans and how to access collection services for consumers. As well, Stewardship Ontario management attended over 76 events last year to provide information about its programs to stewards, consumer groups, municipalities and other service provider organizations.

2010 MARKED A WATERSHED YEAR FOR STEWARDSHIP ONTARIO'S GOVERNANCE.

Board Members



Jim Quick - Chair
President and CEO
Canadian Paints
and Coatings
Association



Debbie Baxter
Chief Sustainability
Officer
LoyaltyOne Inc.



John Coyne
Vice President
General Counsel and
Corporate Secretary
Unilever Canada Inc.



Mark Malo
President
Clorox Company
of Canada Ltd.



Brian Prendergast
Senior Vice President
Consumer
Recochem Inc.



Diane Brisebois
President and CEO
Retail Council
of Canada



Reg McLay
Senior Vice President
Marketing and
Sourcing Services
Canadian Tire Corp.



Ian Anderson
President
CKF Inc.



Robert Chant
Vice President
Corporate Affairs
Loblaw Companies Ltd.



Sylvain Mayrand
Executive
Vice President
A. Lassonde
Industries Inc



Ron Davidson
Vice President
Human Resources
Apotex Inc.



Calla Farn
Vice President
Government,
Public Affairs and
Corporate Affairs
McCain Foods



Gordon Meyer
Business Unit Director
Food and Beverage
Pet Care and Home Care
Procter & Gamble



Don Cousens
Principal
Counsel Public
Affairs Inc.
(Independent
Director)



Stewardship Ontario

Thinking beyond the box

