



Stewardship Ontario

**RPRA Filing on
2022 Program Performance**

April 26, 2023

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Signature of the Administrator

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

A handwritten signature in black ink, appearing to read 'Sue Lo', is positioned above the printed name. The signature is fluid and cursive.

Sue Lo
Administrator
Stewardship Ontario



SECTION 1

2022 Blue Box Program Performance

Blue Box Performance Report for 2022

Background

Stewardship Ontario is the industry funding organization responsible for the Blue Box Program Plan, which was approved by the Minister on December 22, 2003, and commenced on February 1, 2004. For further information please see the Stewardship Ontario website and the Resource Productivity and Recovery Authority (RPR) website.

www.stewardshipontario.ca
www.rpra.ca

Stewardship Ontario presented the Blue Box Program budget for 2023, updated projections for 2024-25 and guidance for estimating simplified fees to stewards on October 26, 2022. Relevant documentation, including a discussion paper, presentations and Q&A's from the meeting can be found at www.stewardshipontario.ca/engagement/information-sessions.

Blue Box Program Transition Plan

Stewardship Ontario continued work to satisfy the conditions set for the approval of the Transition Plan.

Stewardship Ontario cancelled plans to change the fee setting methodology to incorporate Material Cost Differentiation (Condition #1) when its focus shifted to a new proposal to simplify fee setting and eliminate the need for Stewards to report supply-to-market data.

Stewardship Ontario's proposal to address Condition #2 (Conflict of Interest) was approved by RPR) on March 31, 2021.

Stewardship Ontario worked closely with RPR) to complete plans to satisfy conditions #3 and #4.

Stewardship Ontario's plan in regard to Condition #4 was approved on December 23, 2022.

Proposed plans regarding Condition #3 were finalised shortly after the end of the reporting year and were approved on January 27th, 2023.

All aspects of the Blue Box Transition Plan are being addressed on time and within budget.

Steward Registration, Reporting & Audit

There were 1,797 stewards registered with Stewardship Ontario's Blue Box Program as of December 31, 2022.

With the final approval of the *Revised Fee Setting Methodology Addendum to the Blue Box Program Wind Up Plan*, most stewards no longer needed to report their annual supply data to Stewardship Ontario in 2022 and for the remaining years of the program. In 2022, 57 steward reports were submitted for the optional/approved or mandatory circumstances where the simplified fee setting model does not apply:

- Stewards entering/leaving the Ontario market; and/or who had not filed complete 2019 and 2020 data by July 31, 2022
- Divestiture of a subsidiary or product line (and potentially the corresponding acquisition by another steward)
- Discontinuance of a product line
- Newspapers subject to the CNA/OCNA Amendment to the Stewardship Ontario Blue Box Program Plan.

Blue Box fee revenue invoiced for 2022 was \$169,171,725 vs \$147,527,971 for 2021, which is an increase of 14.7%. 2022 fee revenue of \$169,171,725 compared to the 2022 budget of \$166,511,000 is an increase of 1.6%. Please note that steward reports for any prior year's obligations or changes to steward reports for prior

years are captured in the year that the reporting or change takes place.

Steward reports were analyzed to flag inconsistencies in reporting against prior years. Where inconsistencies are flagged, follow-up activities are initiated to confirm the reported quantities and to make corrections where required. At the end of 2022, steward reports representing more than 98% of reported tonnes had undergone desk verification and review.

Stewardship Ontario utilizes a compliance audit framework designed in cooperation with Deloitte LLP and PwC, that was built upon the best practices from European EPR jurisdictions. The criteria for selecting stewards for comprehensive audits is designed to improve overall confidence in the quality of reporting. In addition, any steward-initiated adjustment request involving a significant amount undergoes an independent third-party audit. For reviews of stewards' 2020 reports/2021 invoices, nine stewards were selected for review.

One steward's third-party review remains in progress as of December 31, 2022.

Program Diversion Performance

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

The recycling rate for 2021 decreased from the previous year to 53.3%. There was a slight decrease in recycled tonnes and a significant increase in generated tonnes due to a broader set of multi-family data. Access to recycling programs is being maintained at very high levels.

| | 2021 | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 | YOY Variance % |
|---|------------|------------|------------|------------|------------|------------|------------|----------------|
| Recycling Performance | | | | | | | | |
| Recycled Tonnes | 736,380 | 756,984 | 729,906 | 780,555 | 822,979 | 836,227 | 852,437 | -2.7% |
| Generated Tonnes | 1,380,911 | 1,263,401 | 1,274,310 | 1,296,207 | 1,342,017 | 1,340,947 | 1,332,544 | 9.3% |
| Recycling Rate | 53.3% | 59.9% | 57.3% | 60.2% | 61.3% | 62.4% | 64.0% | -6.6% |
| Provincial Recycling Target | 60.0% | 60.0% | 60.0% | 60.0% | 60.0% | 60.0% | 60.0% | 0.0% |
| Population Served by PPP Program | 13,562,763 | 13,412,332 | 13,205,235 | 13,078,155 | 12,962,740 | 12,814,578 | 12,830,228 | 1.1% |
| Recycling kg per Capita | 54.3 | 56.4 | 55.3 | 59.7 | 63.5 | 65.3 | 66.4 | -3.8% |
| Accessibility Performance | | | | | | | | |
| # Households Served | 5,423,218 | 5,374,308 | 5,333,161 | 5,278,332 | 5,237,905 | 5,174,930 | 5,165,154 | 0.9% |
| % Households with Access to PPP Program | 94.4% | 94.8% | 94.0% | 94.0% | 94.4% | 94.6% | 95.3% | -0.4% |
| P&E Cost per Capita* | \$ 0.50 | \$ 0.56 | \$ 0.62 | \$ 0.61 | \$ 0.56 | \$ 0.64 | \$ 0.58 | -11.0% |

*This does not include the extensive promotion and education activities undertaken by individual municipalities.

Program Cost

Total reported net cost of the Blue Box system by municipalities and administrative costs for 2021 was \$317.2 million, a decrease of -11.7% from 2020, primarily due to an increase in overall revenue over last year but was offset in part by a modest increase in gross cost. As a result, net cost per tonne and per capita also decreased from the previous year.

| | 2021 | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 | YOY Variance % |
|-------------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Cost Performance | | | | | | | | |
| Recycled Tonnes | 736,380 | 756,984 | 729,906 | 780,555 | 822,979 | 836,227 | 852,437 | -2.7% |
| Net Cost* | \$ 317,181,659 | \$ 359,178,458 | \$ 336,293,874 | \$ 299,307,268 | \$ 249,809,925 | \$ 258,540,366 | \$ 263,726,504 | -11.7% |
| Net Cost per Tonne | \$ 431 | \$ 474 | \$ 461 | \$ 383 | \$ 304 | \$ 309 | \$ 309 | -9.2% |
| Net Cost per Capita | \$ 23 | \$ 27 | \$ 25 | \$ 23 | \$ 19 | \$ 20 | \$ 21 | -12.7% |
| Recycled kg per capita | 54.3 | 56.4 | 55.3 | 59.7 | 63.5 | 65.3 | 66.4 | -3.8% |

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

Market Development

As highlighted in the approved Blue Box Transition Plan, a decision was made to not engage in any new market development projects during the wind up of the program. However, Stewardship Ontario has continued to invest and partner with municipalities in studies of Residential Waste Composition. Highlights of this work are summarized below.

In early 2022, Stewardship Ontario determined that, although the curbside and depot waste composition data for single family homes was sufficient, it would increase the number of data points related to multi family residences. Improving Stewardship Ontario's multi-residential waste study data would help to provide a more robust dataset to calculate the provincial obligated Blue Box material residential generation amount and improve performance reporting. Stewardship Ontario worked closely with the Continuous Improvement Fund to incorporate a broader dataset into the analysis. This included incorporating data from more municipalities, in particular current and historical data from the City of Toronto, the largest multi-residential market in the province. This continued into 2023 and was completed in the first quarter of 2023.

Promotion and Education

New Stewardship Ontario Website

As part of its efforts to provide stakeholders with clear, timely and updated information, Stewardship Ontario launched a new website in 2022, focusing on providing stewards the information they need about the Stewardship Ontario program as Ontario begins to transition to a full EPR model, starting July 2023. The site includes the transition plan, resources for stewards prior to and throughout the transition period and information for municipalities.



Municipality Resource Development

Stewardship Ontario began the outreach and engagement of select municipalities to gather information to develop resources to support their promotion and education efforts. This work continues and resources will be available to all communities participating in the Blue Box program in 2023.

Social Media

Stewardship Ontario did not engage in social media campaigns in 2022, while its plan to respond to Condition #4 was in development.



SECTION 2

2022 MHSW Program Performance

MHSW Performance Report for 2022

Background

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

MHSW Wind-Up Summary

On April 12, 2018, the Minister of the Environment and Climate Change (MOECC) issued direction to

Stewardship Ontario to wind up the Municipal Hazardous or Special Waste (MHSW) Program by December 31, 2020. Upon wind-up, materials collected under the MHSW Program will be managed according to an individual producer responsibility framework under the *Resource Recovery and Circular Economy Act, 2016*.

A variety of changes and amendments to the Minister's direction were made prior to and following approval of the Wind-up Plan (WUP) in December of 2019, which were approved and addressed as detailed in the table below:

| MHSW Ministerial Directions and Timelines | | | | |
|---|------------------------------------|---|--|---|
| Date | Ministerial Direction | Details | Resulting Wind-Up Plan and Addenda | Date of Approval |
| April 12, 2018 | MHSW Program Wind Up Direction | MHSW Program to cease operations Dec 31, 2020 | Stewardship Ontario to submit MHSW Wind Up Plan to RPRA by June 30, 2019 | |
| Dec 11, 2018 | Single-use Battery Timeline | MHSW Program for single-use batteries to cease operation June 30, 2020 | | |
| July 2, 2019 | Surplus Funds and Program Timeline | MHSW surplus funds to be returned to consumers through fee reductions. MHSW Program for materials, other than single-use batteries, to cease operations, June 30, 2021. | Stewardship Ontario to submit MHSW WUP to RPRA | RPRA approved MHSW WUP with conditions on December 31, 2019 |
| Dec 20, 2019 | Residual Funds | MHSW residual funds to be returned to stewards | | RPRA approved Residual Funds Addendum on February 20, 2020 |
| April 1, 2020 | ISO Surplus Fund Transfer | Lump sum payments to Industry Stewardship Organizations for fee reductions | Stewardship Ontario to submit WUP Plan Amendments to RPRA by April 30, 2020 | |
| April 29, 2020 | Submission Extension | | Stewardship Ontario to submit ISO Surplus Fund Transfer Amendments to RPRA by June 5, 2020 | RPRA approved ISO Surplus Fund Transfer Addendum with conditions on June 26, 2020 |
| April 29, 2021 | Program Extension | MHSW Program for materials to cease operation on Sept 30, 2021 | Stewardship Ontario to submit WUP Amendments to RPRA by May 31, 2021 | RPRA approved Program Extension Addendum on June 22, 2021 |

On September 30, 2021, Stewardship Ontario ceased supply chain operations of the MHSW program. Approved service providers were given until October 15 to complete final collections from all approved collections sites and given until November 30 to submit all invoices for payment to Stewardship Ontario.

the transfer of MHSW Program data to RPRA in accordance with the approved MHSW WUP. More information on MHSW wind-up activities can be <https://stewardshipontario.ca/about-us/mhsw-windup/>.

Throughout 2022, Stewardship Ontario continued to track non-operational information related to final administrative costs that are attributable to the materials, ongoing wind-up costs and surplus reserve balances, as well as tasks related to

MHSW Wind-Up Cost Performance to Budget

MHSW WIND UP UPDATE - COSTS (EXCLUDING MATERIAL CONTINGENCIES AND COSTS) FORECASTS VS ACTUALS

| Budget Category (\$000s) | 2019 WUP Forecast | 2019 Actuals | 2020 WUP Forecast | 2020 Actuals | 2021 WUP Forecast | 2021 Actuals | 2022 WUP Forecast | 2022 Actuals | Revised WUP Forecast |
|-----------------------------------|-------------------|----------------|-------------------|----------------|-------------------|--------------|-------------------|----------------|----------------------|
| Plan Development & Implementation | \$996 | \$935 | \$1,231 | \$1,167 | \$895 | \$716 | \$723 | \$745 | \$3,563 |
| Regulatory Charges (RPRA Fees) | \$450 | \$181 | \$450 | \$467 | \$610 | \$170 | \$225 | \$203 | \$1,021 |
| Contingencies | | | | | | | | | |
| <i>General</i> | | | | | \$500 | | \$500 | \$250 | \$250 |
| <i>HR</i> | | | | | \$110 | \$8 | | | \$8 |
| Corporate Wind-Up Hold Back | | | | | \$50 | \$50 | | | \$50 |
| Total | \$1,446 | \$1,116 | \$1,681 | \$1,634 | \$2,165 | \$944 | \$1,448 | \$1,198 | \$4,892 |

Cost Performance to Budget 2019 - 2022

The MHSW WUP submitted in September 2019 included forecast wind up expenses of \$7.291 million over a three-year period including material contingency amounts. During the wind-up period Stewardship Ontario adjusted expense forecasts based on actual expenses incurred and to accommodate changes to the WUP process. The extension of the MHSW Program in 2021 increased general WUP management costs associated with the implementation of the WUP and deferred some anticipated WUP costs into 2022. Details regarding previous financial adjustments to MHSW WUP general expenses and performance in relation to forecasts can be found in previous Stewardship Ontario RPRA Filings on Program Performance.¹

As can be seen in the table below, overall MHSW wind-up expenses of \$4.891 million were significantly less than WUP Budget forecast of \$7.291. Two million in material contingency amounts were ultimately not required. As per the WUP, unused contingency amounts were returned to stewards as fee reductions or residual fund payments (See table below).

Excluding material contingency amounts in a comparison of WUP actual costs versus forecasts, WUP costs of \$4.891 million were approximately 8% less than the original WUP forecast of \$5.291 million.

While plan development and implementation costs of \$3.660 million were higher than the original forecast of \$3.121 million (by approximately 17%), new Ministerial directions issued following the submission of the original WUP, including a requirement to extend the MHSW Program for three months, generated higher than anticipated WUP development and implementation costs.

Higher WUP development and implementation costs, however, were offset by lower than anticipated RPRA fees and other cost adjustments. RPRA fees of just under \$1 million during the wind-up period were 36% less than the original forecast. Stewardship Ontario also managed MHSW related employment issues in a cost-effective manner saving over \$100,000 in potential employment severance payments.

The original WUP budget included \$550,000 in general contingency amounts related to final program wind-up. A corporate wind-up holdback in the amount of \$50,000 was forecast to cover 50% of the estimated legal cost related to dissolution of Stewardship Ontario as a corporate entity. A general contingency of \$500,000 was established to deal with unexpected costs, such as potential claims against the organization, and adjustments to the WUP budget.

Following completion of general wind-up activities and a re-assessment of estimated corporate dissolution costs, Stewardship Ontario combined and reduced its overall contingency amount in 2022 from \$550,000 to a revised \$250,000 accrual to be used for a combination of remaining MHSW wind-up expenses and a share of the costs related to the eventual corporate dissolution of Stewardship Ontario.

¹See RPRA Filing on Program Performance for 2019, 2020 & 2021.

MHSW WIND-UP UPDATE: ACUTAL VERSUS FORECAST COSTS

| Budget Category | Actuals (2019-2022) | Wind-Up Plan (2019-2022) |
|-----------------------------------|---------------------|--------------------------|
| Plan Development & Implementation | \$3,660 | \$3,121 |
| Regulatory Charges (RPRA) | \$973 | \$1,510 |
| Contingencies | | |
| Material | \$0 | \$2,000 |
| General | \$0 | \$500 |
| HR | \$8 | \$110 |
| Corporate Wind-Up Accrual | \$4,891 | \$7,291 |
| TOTAL | \$4,891 | \$7,291 |

*forecast as of December 2019

Steward Registration, Reporting & Audit

There were 266 stewards registered with the MHSW Program as of program wind-up on September 30, 2021.

Two MHSW compliance cases were escalated to RPRA in 2021 and remain open as of December 31, 2022.

Promotion and Education

Overview

Following the introduction of the Hazardous and Special Products (HSP) Regulation in June 2021, MHSW completed the work to wind up its program on September 30, 2021.

Website

The Orange Drop program and website ceased operations on September 30, 2021, the website was replaced with a single landing page that directs visitors to resources hosted by RPRA to dispose of household hazardous or special waste or find details about the Hazardous and Special Products Regulation.

Transfer of the Orange Drop web domain makethedrop.ca to RPRA was initiated in July 2022. Finalization of the transfer is targeted for completion by March 2023.

Advertising

No advertising was done for this program in 2022.

Social Media

Orange Drop's Twitter and Facebook accounts concluded all activity on September 30, 2021. Transfer of social media assets and the Orange Drop web domain makethedrop.ca to RPRA was initiated in July 2022.



SECTION 3

2022 Audited Financial Statements

Stewardship Ontario

Financial Statements

For the year ended December 31, 2022

Stewardship Ontario

Financial Statements

For the year ended December 31, 2022

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Independent Auditor's Report

To the Members of Stewardship Ontario

Opinion

We have audited the financial statements of Stewardship Ontario (the "Organization"), which comprise the balance sheet as at December 31, 2022, and the statements of changes in net assets, operations and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Organization as at December 31, 2022, and its results of operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

Basis for Opinion

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

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

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian accounting standards for not-for-profit organizations, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Organization's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Organization or to cease operations, or has no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the Financial Statements

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



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

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

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

BDO Canada LLP

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Ontario
March 13, 2023

Stewardship Ontario Balance Sheet

December 31 **2022** 2021

Assets

Current

| | | |
|---|---------------|---------------|
| Cash | \$ 16,634,930 | \$ 16,315,043 |
| Investments (Note 2) | 26,308,042 | 27,192,732 |
| Accounts and other receivables (Note 3) | 2,470,000 | 3,149,741 |
| Prepaid expenses and deposits | 35,117 | 31,487 |

45,448,089 46,689,003

Investments (Note 2) **28,377,356** 39,101,436

\$ 73,825,445 \$ 85,790,439

Liabilities and Net Assets

Current

| | | |
|--|---------------|---------------|
| Accounts payable and accrued liabilities | \$ 45,379,523 | \$ 40,314,511 |
| Deferred revenue (Note 5) | 666,017 | 666,017 |
| Continuous Improvement Fund (Note 6) | 10,974,679 | 12,713,937 |

57,020,219 53,694,465

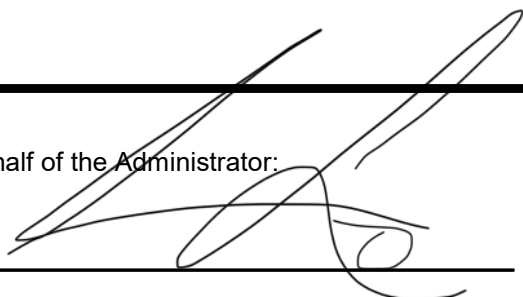
Net Assets

| | | |
|--------------------------------|------------|------------|
| Unrestricted | 16,805,226 | 31,449,974 |
| Internally restricted (Note 7) | - | 646,000 |

16,805,226 32,095,974

\$ 73,825,445 \$ 85,790,439

On behalf of the Administrator:



Administrator

Stewardship Ontario Statement of Changes in Net Assets

For the year ended December 31, 2022

| | Unrestricted | Internally Restricted | 2022 Total |
|--|----------------------|--------------------------|----------------------|
| Balance, beginning of year | \$ 31,449,974 | \$ 646,000 | \$ 32,095,974 |
| Deficiency of revenue over expenses for the year | (15,290,748) | - | (15,290,748) |
| MHSW Program Extension Reserve (Note 7) | 646,000 | (646,000) | - |
| Balance, end of year | \$ 16,805,226 | \$ - | \$ 16,805,226 |

For the year ended December 31, 2021

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

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

Stewardship Ontario Statement of Operations

| For the year ended December 31 | 2022 | 2021 |
|---|------------------------|------------------------|
| Revenue | | |
| Blue Box program steward fees | \$169,171,725 | \$147,527,971 |
| MHSW program steward fees | 8,180 | 3,963,778 |
| MHSW program steward fee reduction (Note 8) | - | (2,334,503) |
| Investment income (loss) (Note 9) | (696,341) | 273,418 |
| | 168,483,564 | 149,430,664 |
| Expenses | | |
| Blue Box Program | | |
| Municipal Transfer Payments | 169,143,232 | 149,246,510 |
| Research and development | 67,149 | 91,089 |
| Promotion and education | 362,561 | 384,723 |
| Program wind up costs | 641,722 | 898,588 |
| | 170,214,664 | 150,620,910 |
| MHSW Program | | |
| Direct material costs (Note 4) | 461,262 | 2,063,166 |
| Program wind up costs | 1,197,839 | 944,137 |
| Surplus transfer (Note 11) | 3,354,068 | - |
| | 5,013,169 | 3,007,303 |
| Common costs | | |
| Program management (Note 4) | 6,876,685 | 7,302,736 |
| Resource Productivity and Recovery Authority (Note 10) | 1,669,794 | 1,789,577 |
| | 8,546,479 | 9,092,313 |
| Total expenses | 183,774,312 | 162,720,526 |
| Deficiency of revenue over expenses for the year | \$ (15,290,748) | \$ (13,289,862) |

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

Stewardship Ontario Statement of Cash Flows

| For the year ended December 31 | 2022 | 2021 |
|--|----------------------|----------------------|
| Cash (used in) | | |
| Operating activities | | |
| Deficiency of revenue over expenses for the year | \$ (15,290,748) | \$ (13,289,862) |
| Adjustments to reconcile deficiency of revenue over expenses for the year to cash provided by operating activities | | |
| Non-cash component of investment income | 3,104,689 | 1,436,322 |
| Changes in non-cash working capital balances: | | |
| Accounts and other receivables | 679,741 | 5,280,291 |
| Prepaid expenses and deposits | (3,630) | (5,982) |
| Accounts payable and accrued liabilities | 5,065,011 | 1,751,406 |
| Deferred revenue | - | (145,001) |
| Continuous Improvement Fund | (1,739,258) | (2,251,128) |
| | (8,184,195) | (7,223,954) |
| Investing activities | | |
| Proceeds from (purchase of) investments, net of expenses | 8,504,082 | (1,371,241) |
| Increase (decrease) in cash during the year | 319,887 | (8,595,195) |
| Cash, beginning of year | 16,315,043 | 24,910,238 |
| Cash, end of year | \$ 16,634,930 | \$ 16,315,043 |

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

Stewardship Ontario Notes to Financial Statements

December 31, 2022

1. Significant Accounting Policies

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

(a) Business Organization and Operations

Stewardship Ontario ("Organization") is an Industry Funding Organization created under Section 24 of the Waste Diversion Act, 2002 ("WDA") to operate waste diversion programs. On February 14, 2003, the Organization was formally incorporated in the Province of Ontario as a corporation without share capital. The Organization is a not-for-profit organization and as such is not subject to income taxes.

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

Blue Box Program

The first Blue Box Program Plan was approved by the Minister of the Environment in December 2003 and the program commenced operations in February 2004.

On August 15, 2019, Management received a letter from the Minister of the Environment, Conservation and Parks that directed the Organization to transition the management of the Blue Box Program to producers of plastic and other packaging. The Organization had to submit a plan to transition the Blue Box Program no later than August 31, 2020. The transition plan was approved by RPRA on December 23, 2020. The Blue Box Program is expected to begin its transition in July 2023 and cease operations by the end of 2025. Corporate wind up is expected to follow the Blue Box Program transition.

MHSW Program

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

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

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

Stewardship Ontario Notes to Financial Statements

December 31, 2022

1. Significant Accounting Policies - (Continued)

(b) Basis of Accounting

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

(c) Revenue Recognition

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

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

(d) Financial Instruments

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

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

(e) Use of Estimates

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

Stewardship Ontario Notes to Financial Statements

December 31, 2022

2. Investments

| | 2022 | 2021 |
|-----------------------|---------------|---------------|
| Cash held with broker | \$ 115,825 | \$ 3,496,461 |
| Fixed income | 54,569,573 | 62,797,707 |
| | 54,685,398 | 66,294,168 |
| Less: Current portion | 26,308,042 | 27,192,732 |
| | \$ 28,377,356 | \$ 39,101,436 |

Fixed income investments bear interest at 2.29% to 3.95% (2021 - 1.83% to 3.95%) and mature between June 2023 and May 2030 (2021 - December 2022 and May 2030). The decrease in market value of investments for the year ended December 31, 2022 amounted to \$2,811,879 (2021 - \$830,551) which is included in investment income (Note 9).

3. Accounts and Other Receivables

| | 2022 | 2021 |
|--|--------------|--------------|
| Blue Box and MHSW program steward fees | \$ 4,243,060 | \$ 3,759,449 |
| Other | 143,739 | 28,868 |
| Allowance for doubtful accounts | (1,916,799) | (638,576) |
| | \$ 2,470,000 | \$ 3,149,741 |

Stewardship Ontario Notes to Financial Statements

December 31, 2022

4. Significant Contracts

- (a) Canadian Stewardship Services Alliance Inc. ("CSSA") and Circular Materials ("CM")

The Organization entered into an agreement with CSSA to sublicense its original intellectual property licenses and intellectual property associated therewith, being the Enterprise Information System to CSSA, for consideration of \$1,650,000. This agreement will expire on May 31, 2023.

Effective January 1, 2014, the Organization entered into a five year Management Services Agreement with CSSA for management, administrative and technical support, other services and facilities for administrative, technical and reporting activities. On January 1, 2019, the agreement was amended to extend for a further three years. On November 11, 2021, CSSA entered into an agreement with the Resource Recovery Alliance Inc. ("RRA") to acquire substantially all assets, liabilities and operations of the CSSA. As a result of the acquisition, the MSA with CSSA was assigned to RRA. On September 15, 2022 CM acquired all of the issued and outstanding shares of RRA, and, as part of the acquisition, a Service Agreement was signed between CM and SO which became effective on September 15, 2022. Charges totaling \$4,373,880 (\$3,309,312 to RRA and \$1,064,568 to CM) ((2021 - \$4,657,271 to CSSA and \$1,051,367 to RRA) were paid pursuant to the contract and are included in program management expenses and program wind up costs in the statement of operations. Included in accounts payable and accrued liabilities as at December 31, 2022 is \$609,824 (2021 - \$Nil) relating to these services.

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

On February 2, 2017, the Organization entered into a Supply Chain Agreement with AMS, a newly established organization whose program was previously under the Organization's MHSW program. AMS focuses on the waste management of anti-freeze, oil filters, and oil containers. Under the Supply Chain Agreement, the Organization shall purchase from AMS, the Organization's Automotive Market Share of tonnes of each Automotive Materials (oil filters, oil containers, and anti-freeze) under the supply chain. During the year ended December 31, 2022, the Organization incurred costs of \$458,065 (2021 - \$624,100) under this agreement which are included in direct material costs for the MHSW program.

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

Stewardship Ontario Notes to Financial Statements

December 31, 2022

5. Deferred Revenue

| | <u>2022</u> | <u>2021</u> |
|-------------------------------|-------------------|-------------|
| Blue Box Program | | |
| Glass Market Development Fund | \$ 666,017 | \$ 666,017 |

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

6. Continuous Improvement Fund ("CIF")

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

During the year ended December 31, 2022, the CIF spent \$1,739,258 (2021 - \$2,251,128) on continuous improvement activities. The funds held by the Organization for the CIF are included in cash.

Stewardship Ontario Notes to Financial Statements

December 31, 2022

7. Internally Restricted Net Assets

| | 2022 | 2021 |
|-----------------------------|------|------------|
| MHSW Program Extension Fund | \$ - | \$ 646,000 |

The directors authorized the establishment of the MHSW Program Extension Fund to support the costs associated with an increase in general wind up costs associated with a potential program extension. In 2022, the directors authorized the transfer of \$646,000 from the MHSW Program Extension Fund to Unrestricted Net Assets.

The directors recognized the need for a Sustaining Fund to enable the Organization to carry out its non-profit activities and satisfy all of its obligations. During 2021, the directors authorized the transfer of \$2,100,000 from the Sustaining Fund to Unrestricted Net Assets.

The directors authorized the establishment of the Plastic Market Development Fund for investment in infrastructure for plastic markets and activities for their development and therefore internally restricted funds for this purpose. In 2021, the directors authorized the transfer of \$4,964,379 from the Plastic Market Development Fund to Unrestricted Net Assets.

8. Steward Fee Reduction

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

9. Investment Income

| | 2022 | 2021 |
|-----------------------------|--------------|--------------|
| Interest income | \$ 2,288,921 | \$ 1,597,439 |
| Dividend income | 119,426 | 112,300 |
| Loss on sale of investments | (83,335) | (394,440) |
| | 2,325,012 | 1,315,299 |
| Adjustment to fair value | (2,811,879) | (830,551) |
| Investment expenses | (209,474) | (211,330) |
| | \$ (696,341) | \$ 273,418 |

Stewardship Ontario Notes to Financial Statements

December 31, 2022

10. Resource Productivity and Recovery Authority

Under the Blue Box and MHSW program agreements, the Organization is required to collect fees to cover both program operations and the program specific and common costs of RPRA that relate to program oversight.

11. Surplus Transfer

During the year, in accordance with RPRA's conditions of the ISO Surplus Fund Transfer Addendum to the MHSW Wind Up Plan, the Organization made an additional surplus distribution payment of \$1,389,901 to AMS and \$585,039 to Product Care Association of Canada. In addition, a residual fund payment of \$930,325 and a retroactive fee reduction payment of \$448,803 was made to MHSW stewards.

12. Commitments

(a) Glass Market Development Fund

The Blue Box Program Plan is committed to pay \$2,901,525 to a Glass Market Development Fund from contributions from stewards of glass. As of December 31, 2022, the Organization has spent \$2,235,508 (2021 - \$2,235,508).

(b) Continuous Improvement Fund ("CIF")

The CIF provides grants and loans to municipalities to execute projects that will increase the efficiency of municipal Blue Box recycling and help boost system effectiveness. The CIF was created to support projects that will identify and implement best practices, examine and test emerging technologies, employ innovative solutions to increase Blue Box materials marketed, and promote gains in cost-effectiveness that can be implemented province wide. Each year, RPRA determines the amount of the annual municipal obligation funded by the Organization's stewards that is passed along to the CIF and any cumulative unused amounts are reflected in CIF (Note 6). As of December 31, 2022, approved project funding and related commitments for the CIF amounted to approximately \$1,279,884 (2021 - \$1,783,045) of the total fund balance of \$10,974,679 (2021 - \$12,713,937).

Stewardship Ontario Notes to Financial Statements

December 31, 2022

13. Financial Instrument Risk Exposure and Management

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

(a) Credit Risk:

Financial instruments potentially exposed to credit risk include cash, investments, and accounts and other receivables. Management considers its exposure to credit risk over cash to be remote as the Organization holds cash deposits at a major Canadian bank. Management considers its exposure to credit risk over investments to be remote as the Organization invests in federal or provincial government securities, corporate bonds, securities backed by any chartered bank, guaranteed investment certificates or equity and bond pooled funds. Accounts and other receivables, are not significantly concentrated, monitored regularly for collections, and the carrying amount represents the maximum credit risk exposure. The Organization's provision for uncollectable accounts, other receivables and loans receivable is \$1,916,799 (2021 - \$638,576).

(b) Interest Rate Risk:

The Organization is exposed to interest rate risk from fluctuations in interest rates depending on prevailing rates at renewal of fixed income investments. To manage this exposure, the Organization invests mainly in fixed income securities (federal or provincial government securities, securities backed by any chartered bank or equity and bond pooled funds), and cash and/or money market investments as determined by the Organization's portfolio manager and in accordance with the Organization's investment policy. To further manage interest rate risk, the Organization's investment portfolio has been laddered so that investment maturities are staggered over the long term.

(c) Liquidity Risk:

Liquidity risk is the risk that the Organization will not be able to meet its obligations as they come due. The two programs operated by the Organization carry substantially different risks in the ability to forecast and control expenditures. Management has taken steps to ensure that the Blue Box and MHSW programs will have sufficient working capital available to meet obligations which it is unable to cover from program revenues in the short term. Ontario Regulations related to the MHSW Program allow the Organization to charge actual costs to stewards and significantly reduces risks related to timing of receipt and payments for the MHSW Program (Note 1(a)) and the program has ceased operations as of September 30, 2021.

These risks have not changed from the prior year.