

Automotive Materials Stewardship

RPRA Filing on 2018 Program Performance

March 15, 2019



Signature of the Chair of the Board of Directors

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



Dave Fifield
Board Chair
Automotive Materials Stewardship Board of Directors

TABLE OF CONTENTS

Section 1 — 2018 AMS Program Performance	4
Overview.....	5
Steward Registration, Reporting and Audit.....	5
Compliance.....	6
Vendor Registration.....	6
Accessibility.....	6
Program Performance Against Targets.....	7
2018 Tonnes Collected.....	7
2018 Tonnes Diverted.....	8
Promotion and Education.....	8
Section 2 — 2018 Audited Financial Statements	10



SECTION 1

2018 AMS Program Performance

Overview

As businesses become increasingly aware of their impact on the environment, so does their desire to take a leading role in producing less waste and ensuring what is produced is recycled and repurposed. Automotive Materials Stewardship (AMS) was established in early 2016 to represent the interests of Canadian businesses in the automotive sector to create convenient, environmentally sustainable ways for consumers to recycle and repurpose used antifreeze, oil filters and oil containers.

On August 10, 2016 the Waste Diversion Ontario (now the Resource Productivity and Recovery Authority) Board of Directors approved AMS's Industry Stewardship Plan (ISP) to manage used antifreeze, oil containers and oil filters in accordance with the *Waste Diversion Act, 2002* (now the *Waste Diversion Transition Act, 2016*). The program officially launched on April 1, 2017. Prior to April 1, 2017, these materials were collected and managed by Stewardship Ontario's Municipal Hazardous or Special Waste (MHSW) program.

AMS is an industry-led and industry-funded national, non-profit organization, bringing together key players to achieve better recycling performance. Modeled under an Extended Producer Responsibility (EPR) platform, stewards are responsible for their automotive products sold to Ontarians by paying set fees on the oil filters, empty oil containers, antifreeze and used antifreeze containers they sell in Ontario. AMS then uses these fees to pay for collection, transportation and recycling or repurposing of automotive materials to meet the performance targets included in the ISP.

2018 highlights included:

- 153 stewards registered with the AMS program, representing 83% of Antifreeze, 81% Oil Containers, and 75% Oil Filters supplied in Ontario.
- AMS achieved and exceeded all collection and recycling targets in 2018:
 - Antifreeze – 70%
 - Oil containers – 102%
 - Oil filters – 103%
- Promotion and education initiatives targeting consumers, and in partnership with Orange Drop, resulted in over 18 million impressions.

Steward Registration, Reporting and Audit

Registration for the AMS program totalled 153 stewards as of December 31, 2018, with an additional 12 applications in progress.

The total number of AMS steward reports received in 2018 was 711.

Total revenue to AMS was \$20.7 million, of which \$16.7 million was in the form of fees paid by members. An additional \$4 million was for the sale of supply chain performance credits to Stewardship Ontario.

AMS Guiding Principles

AMS will:

- Act in the best interests of its members, as a collective;
- Use reasonable efforts to carry out obligations diligently and cost-effectively and in compliance with provincial legislation; and
- Exercise skill and expertise in the operation of the AMS program.

Compliance

Each quarter, reports filed by stewards undergo reviews to flag any inconsistencies quarter-to-quarter on a season-to-season. If inconsistencies are flagged then a follow-up program is initiated to confirm or update the reports.

AMS partners with the Used Oil Management Association (UOMA) to execute reviews that address the accuracy of steward reporting. Participation in the national UOMA reviews reduces the expense and administrative burden for the steward community. UOMA hires a third-party professional services firm to conduct the reviews.

In the event that the reviews reveal errors in steward reporting, AMS works with the steward to ensure corrections to reported quantities and adjustments to fees are made.

Vendor Registration

AMS's responsibilities and duties include fostering a marketplace that maintains and encourages competition, achieves efficiencies and cost-effectiveness and ensures that all industry service providers have a fair and equitable opportunity to participate in the provision of services. AMS has entered into services agreements with 23 transporters and 17 processors to provide material management solutions.

Only service providers that are approved by AMS are eligible to perform material management activities. All approved AMS service providers must sign services agreements and adhere to vendor standards, policies and procedures established by AMS. Visit the AMS service provider web page for the most up-to-date list of approved service providers.

Accessibility

Maintaining convenient and accessible collection sites is critical to achieving consumer participation and maximizing diversion activities. AMS provides financial incentives to its transporters to move material from generation sites to processors for recycling. The transporters are responsible for establishing and maintaining the relationship with the individual collection sites, except that AMS contracts directly with municipalities. The network is comprised of both public and private collection sites, including quick lubes, automotive dealerships, fleet management companies and industrial sites such as mines and quarries. Many municipalities and First Nations communities offer collection services to their residents through permanent or seasonal depots or through special one-day collection events. Some service centres accept Automotive Materials from do-it-yourself consumers. These locations are listed as 'Return-to-Retail'. The following chart details consumer accessibility by collector type for AMS in 2018:

Channel - Activity	Depots	Events	Return-to-Retail	Automotive Incentive Program
Antifreeze	88	312	900	12,000+
Oil Containers	88	312	903	12,000+
Oil Filters	88	312	960	12,000+

Program Performance Against Targets

Each year AMS must meet certain minimum performance requirements as outlined in the ISP. The performance targets expressed in tonnes for 2018 have been calculated using the quantities supplied to market in 2018 by AMS members. The ISP contains assumptions for converting supplied tonnes to the quantity available for collection, accounting for changes to quantities and weights such as the dilution of glycol or the weight of residual oil in used oil filters. These factors may be changed from time to time based on market insights and upon approval by the Resource

Productivity and Recovery Authority. The quantity available for collection is multiplied by the collection target rate (%) to calculate the target expressed in tonnes.

2018 Tonnes Collected

AMS achieved and exceeded all collection targets in 2018, its second year of operations.

Material Category	Available for Collection ¹	Collection Target Rate (%)	Target Tonnes	Actual Collection Tonnes ²	Actual Collection Rate (%)	Variance to Target (Tonnes)
Antifreeze	3,491	52%	1,816	2,449	70%	633
Oil Containers	3,282	62%	2,035	3,332	102%	1,297
Oil Filters	6,911	87%	6,012	7,119	103%	1,106

¹ Available for Collection is calculated based on the quantity supplied to market by AMS members.

² Actual Collection Tonnes excludes performance credits sold to Stewardship Ontario.

2018 Tonnes Diverted

AMS achieved and exceeded all recycling targets in 2018, its second year of operations.

Material Category	Available for Collection ¹	Diversion Target Rate (%)	Target Tonnes	Actual Diversion Tonnes ²	Actual Diversion Rate (%)	Variance to Target (Tonnes)
Antifreeze	3,491	52%	1,816	2,449	70%	633
Oil Containers	3,282	62%	2,035	3,332	102%	1,297
Oil Filters	6,911	87%	6,012	7,119	103%	1,106

¹ Available for Collection is calculated based on the quantity supplied to market by AMS members.

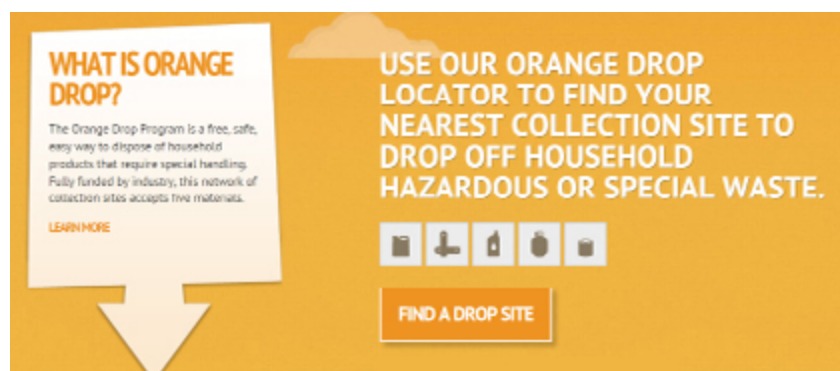
² Actual Diversion Tonnes excludes performance credits sold to Stewardship Ontario.

Promotion and Education

Promotion and education initiatives to support the Automotive Materials Stewardship Program are designed to increase awareness, drive behaviour change, and direct consumers to collection locations in an effort to achieve performance targets.

Website:

AMS has licensed the use of the Orange Drop brand and logo from Stewardship Ontario. Therefore, Orange Drop continues to be the resident-facing brand when promoting AMS materials. The Orange Drop website contains a locator tool for consumers to search drop off locations and events by postal code for their automotive materials. The website saw over 59,000 unique visitors in 2018, up 19% from 2017.





Advertising:

In July, 2018, Orange Drop ran an awareness advertising campaign across Ontario to promote the proper disposal of materials managed under the brand. The creative was featured on billboards in Durham, Peel, Ottawa, Barrie, Thunder Bay, Sudbury and London, as well as online and social media ads. The campaign generated over 13,290,000 impressions.

Social media:

Orange Drop's Twitter and Facebook accounts continued to provide residents with seasonal tips and reminders, as well as promote the depot locator tool and drop off events for AMS and MHSW materials. Twitter and Facebook posts generated over 4,935,000 impressions (up 4,375% from 2017), had 3,066 engagements and over 5,100 link clicks. Combined, Orange Drop's social channels gained 658 followers, up 23% from those gained in 2017. These impressive stats are largely due to the four social media contests Orange Drop ran in 2018 that asked residents to choose which material listed was not part of the program. There were over 2,400 contest entries.





SECTION 2

2018 Audited Financial Statements

Automotive Materials Stewardship Inc.

Financial Statements

For the year ended December 31, 2018

**Automotive Materials
Stewardship Inc.**

Financial Statements
For the year ended December 31, 2018

	Contents
Independent Auditor's Report	2-3
Financial Statements	
Balance Sheet	4
Statement of Changes in Net Assets	5
Statement of Operations	6
Statement of Cash Flows	7
Notes to Financial Statements	8-10



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

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

Independent Auditor's Report

To the Members of Automotive Materials Stewardship Inc.

Opinion

We have audited the financial statements of Automotive Materials Stewardship Inc. (the Organization), which comprise the balance sheet as at December 31, 2018, 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, 2018, 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 7, 2019

Automotive Materials Stewardship Inc. Balance Sheet

December 31 **2018** **2017**

Assets

Current

Cash	\$ 1,791,321	\$ 3,759,371
Investments (Note 2)	1,005,830	-
Accounts receivable (Note 3)	1,225,633	555,539
Prepaid expenses	12,757	12,893

Investments (Note 2)

	4,035,541	4,327,803
	2,011,545	-
	\$ 6,047,086	\$ 4,327,803

Liabilities and Net Assets



Current

Accounts payable and accrued liabilities (Note 3)	\$ 2,110,944	\$ 2,764,246
---	--------------	--------------

Net Assets

Unrestricted	3,936,142	1,563,557
	\$ 6,047,086	\$ 4,327,803

On behalf of the Board:

	Director
	Director

Automotive Materials Stewardship Inc. Statement of Changes in Net Assets

For the year ended December 31, 2018

	<u>Unrestricted</u>	<u>Internally Restricted</u>	<u>Total</u>
Balance, beginning of year	\$ 1,563,557	\$ -	\$ 1,563,557
Excess of revenue over expenses for the year	2,372,585	-	2,372,585
Balance, end of year	\$ 3,936,142	\$ -	\$ 3,936,142

For the year ended December 31, 2017

	<u>Unrestricted</u>	<u>Internally Restricted</u>	<u>Total</u>
Balance, beginning of year	\$ -	\$ -	\$ -
Excess of revenue over expenses for the year	1,563,557	-	1,563,557
Balance, end of year	\$ 1,563,557	\$ -	\$ 1,563,557

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

Automotive Materials Stewardship Inc. Statement of Operations

For the year ended December 31	2018	2017
Revenue		
Fee revenue	\$ 16,772,940	\$ 11,192,917
Supply chain income (Note 3)	3,507,711	3,278,975
Investment income	95,956	24,897
	<hr/>	<hr/>
	20,376,607	14,496,789
Expenses		
Material management costs (Note 4)	15,822,454	10,861,157
Program management (Note 3)	1,805,547	1,843,126
Resource Productivity and Recovery Authority (Note 5)	365,028	221,448
Promotion and education	10,993	7,501
	<hr/>	<hr/>
	18,004,022	12,933,232
Excess of revenue over expenses for the year	\$ 2,372,585	\$ 1,563,557

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

Automotive Materials Stewardship Inc. Statement of Cash Flows

For the year ended December 31	2018	2017
Cash provided by (used in)		
Operating activities		
Excess of revenue over expenses for the year	\$ 2,372,585	\$ 1,563,557
Adjustments to reconcile excess of revenue over expenses for the year to cash provided by operating activities		
Non-cash component of investment income	(17,375)	-
Changes in non-cash working capital balances:		
Accounts receivable	(670,094)	(555,539)
Prepaid expenses	136	(12,893)
Accounts payable and accrued liabilities	(653,302)	2,764,246
	1,031,950	3,759,371
Investing activities		
Purchase of investments	(3,000,000)	-
	(1,968,050)	3,759,371
Increase (decrease) in cash during the year	(1,968,050)	3,759,371
Cash, beginning of year	3,759,371	-
Cash, end of year	\$ 1,791,321	\$ 3,759,371

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

Automotive Materials Stewardship Inc.

Notes to Financial Statements

December 31, 2018

1. Significant Accounting Policies

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

(a) Business Organization and Operations

The Automotive Materials Stewardship Inc. (the "Organization") was incorporated on March 15, 2016 under the Canadian Not-for-profit Corporations Act. The Organization is a not-for-profit organization and as such is not subject to income taxes.

The purpose of the Organization is to design, implement and operate waste diversion programs for Automotive Materials at their end of useful life. These materials include anti-freeze, oil containers, and oil filters. On April 1, 2017 the Organization began operating a waste diversion program in Ontario for automotive materials in accordance with an Industry Stewardship Plan that was approved by the Resource Productivity and Recovery Authority on August 10, 2016.

(b) Basis of Accounting

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

(c) Revenue Recognition

Fee revenue is based on reported tonnages for members with signed Membership Agreements with the Organization. Revenue is recognized when tonnage is reported, fees are received or receivable and collection is reasonably assured. Revenue arising from member reported tonnages or adjustments 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.

Supply chain income is recognized on a cost recovery basis when costs are incurred and collection is reasonable assured.

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

Automotive Materials Stewardship Inc. Notes to Financial Statements

December 31, 2018

2. Investments

	2018	2017
Fixed income	\$ 3,017,375	\$ -
Less: Current portion	1,005,830	-
	<u>\$ 2,011,545</u>	<u>\$ -</u>

Fixed income investments bear interest at 2.66% to 2.85% and mature between October 2019 and October 2020. Interest income earned on these instruments amounted to \$17,375 which is included in investment income in the statement of operations.

3. Significant Contracts

(a) Canadian Stewardship Services Alliance ("CSSA")

Effective January 1, 2017, the Organization entered into a three year Management Service Agreement ("MSA") with CSSA for management services including administrative and technical support, other services and facilities for administrative, technical and reporting activities. During the year, charges totaling \$1,650,000 (2017 - \$1,650,000) were paid to CSSA pursuant to this contract. During the year, CSSA charged \$173,833 (2017 - \$109,000) for start up costs incurred on behalf of the Organization. These amounts are included in program management expenses in the statement of operations.

Included in accounts payable and accrued liabilities is \$155,584 (2017 - \$351,209) owing to CSSA.

(b) Stewardship Ontario ("SO")

Effective February 2, 2017, the Organization entered into a three year Supply Chain Agreement with SO. The Organization was previously part of the MHSW program in Stewardship Ontario. On April 1, 2017, the Organization established its own supply chain and assumed the entire collection, transportation, and recycling of automotive materials for both members of the Organization and SO. Each year, SO will purchase their respective market share of automotive materials tonnage credits from the Organization. During the year, the Organization charged \$3,507,711 (2017 - \$3,278,975) to SO pursuant to this contract.

Included in accounts receivable is \$527,368 receivable from SO. In 2017, included in accounts payable and accrued liabilities was a balance of \$612,163 owing to SO.

All transactions between the Organization, CSSA, and SO are in the normal course of operations and are recorded at their exchange amount as agreed upon by the parties.

Automotive Materials Stewardship Inc.

Notes to Financial Statements

December 31, 2018

4. Material Management Costs

Material management costs include all costs related to the collection, transportation and processing of materials managed through the program.

5. Resource Productivity and Recovery Authority ("RPRA")

RPRA and the Organization entered into an Industry Stewardship Plan Agreement in August 2016. Under this agreement, the Organization is required to pay fees to RPRA for monitoring and program oversight activities it provides to the Organization.

6. 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 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 guaranteed investment certificates. Accounts receivable are monitored regularly for collections and the carrying amount represents the maximum credit risk exposure. The Organization has no provision for uncollectable accounts receivable.

(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 in fixed income securities, 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.

(c) Liquidity Risk:

Liquidity risk is the risk that the Organization will not be able to meet its obligations as they come due. The program operated by the Organization carries risks in the ability to forecast and control expenditures. Management has taken steps to ensure that the program will have sufficient working capital available to meet obligations.