



Automotive Materials Stewardship

RPRA Filing on 2020 Program Performance

March 31, 2021



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 (RPRA) in accordance with the requirements of the *Waste Diversion Transition Act, 2016*.



Dave Fifield
Board Chair
Automotive Materials Stewardship Board of Directors

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SECTION 1

2020 AMS Program Performance

Overview

About AMS

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, Waste Diversion Ontario (now the Resource Productivity and Recovery Authority or RPPRA) 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.

2020 Highlights

- 170 stewards were registered with the AMS program, representing 92% of Antifreeze, 84% Oil Containers, and 91% Oil Filters supplied in Ontario.
- The following are the collection and recycling rates for 2020
 - Antifreeze – 52%
 - Oil containers – 101%
 - Oil filters – 91%
- AMS promotion and education initiatives in partnership with MHSW results in 5,021,423 million impressions.
- AMS website traffic increased by 19% compared to 2019.

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.

Steward Registration, Reporting and Audit

170 stewards were part of the AMS Program as of December 31, 2020, and three others had applications in progress.

776 steward reports were received in 2019, including reports from voluntary reporters.

Compliance

Each quarter, reports filed by stewards undergo reviews to flag any inconsistencies quarter-to-quarter on a season-to-season basis. If inconsistencies are flagged, then a follow-up with the steward 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 by having the reviews coordinated on a national basis. 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. AMS completed eight reviews by UOMA in 2020. By year-end, two cases remained open.

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 service agreements with 23 transporters and 17 processors to provide material management solutions.

Only service providers that are approved by AMS are eligible to participate in the program and receive payment for material management activities. All approved AMS service providers must sign service agreements and adhere to vendor standards, policies and procedures established by AMS. The AMS service provider webpage has 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 in the case of municipalities that AMS contracts with directly. 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.

AMS has contracts with many municipalities and First Nations communities that 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 2020:

Channel - Activity	Depots	Events	Return-to-Retail	Automotive Incentive Program
Antifreeze	88	213	900	12,000+
Oil Containers	88	213	903	12,000+
Oil Filters	88	213	960	12,000+

Program Performance Against Targets

Each year AMS must meet certain minimum performance requirements as outlined in the ISP. The performance of all materials was impacted in 2020 as a result of the economic impact of the COVID-19 pandemic. Of note, the 2020 performance targets were calculated in 2019 using quantities supplied to market in 2018 and were not updated to reflect the actual sales quantities for 2020. As expected, performance declines versus 2019 are generally in line with the supply quantity declines. A consequence of the misalignment between the sales period used

for setting targets and the performance period is that the targets for Antifreeze were not achieved. The ISP contains assumptions for converting supplied tonnes to the quantity available for collection and accounting for changes to quantities and weights such as the dilution of glycol or the weight of residual oil in used oil filters. The factors used to measure the performance for 2020 are below. The quantity available for collection is multiplied by the collection target rate (%) to calculate the target expressed in tonnes.

2020 Tonnes Collected and Diverted

Material Category	Available for Collection ¹	Collection/ Recycling Target Rate (%)	Target Tonnes ²	Actual Collected/ Recycled Tonnes ³	Actual Collection/ Recycling Rate (%)	Variance to Target (Tonnes)	Prior Year Collected/ Recycled Tonnes	YOY Variance % Collected/ Recycled	YOY Variance % Steward Supply
Antifreeze	4,526	54%	2,444	2,336	52%	(108)	2,802	-17%	-15%
Oil Containers	3,405	72%	2,452	3,443	101%	991	3,788	-9%	-7%
Oil Filters	8,126	89%	7,232	7,387	91%	155	8,295	-11%	-10%

¹Available for Collection is using the quantity supplied to market in 2018 as of July 1, 2019.

²Annual Collection/ Recycling Target is using the quantity supplied to market in 2018 as of July 1, 2019.

³Actual YTD Collected/ Recycled Tonnes represent AMS portion only.

Promotion and Education

Promotion and education initiatives to support the AMS Program are designed to increase awareness, drive behaviour change and support collection channels (such as depot, events, return to retail and incentive partners) to achieve diversion targets.

AMS has licensed the use of the Orange Drop brand and logo from Stewardship Ontario and uses the Orange Drop brand when promoting AMS materials to residents.

Website

The Orange Drop website contains a locator tool that allows residents to search for material drop off locations and events by postal code. The website saw over 85,500 visitors in 2020, up 28% from 2019.

Advertising

The 2020 Orange Drop awareness advertising campaign ran from August to October. The campaign was similar to the 2019 campaign but excluded single-use batteries as that program wound up in June.

The campaign ran on various digital channels and generated 9.27 million impressions as well as an impressive 18% click rate.

Templates were made available for municipalities to download, customize, and use for their own promotion and education initiatives.

Social Media

Orange Drop's Twitter and Facebook accounts were used to educate residents about Orange Drop materials and promote the drop off locator tool and collection events featured on the website. Orange Drop Twitter and Facebook posts generated over five million impressions, up 70% from 2019.





SECTION 2

2020 Audited Financial Statements

Automotive Materials Stewardship Inc.

Financial Statements

For the year ended December 31, 2020

**Automotive Materials
Stewardship Inc.**

Financial Statements
For the year ended December 31, 2020

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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, 2020, 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, 2020, 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 25, 2021

Automotive Materials Stewardship Inc. Balance Sheet

December 31	2020	2019
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Assets

Current

Cash	\$ 19,293,513	\$ 3,502,194
Investments (Note 2)	-	3,094,505
Accounts receivable (Note 3)	405,180	1,166,237
Prepaid expenses	6,901	14,791
	<hr/>	<hr/>
	\$ 19,705,594	\$ 7,777,727

Liabilities and Net Assets

Current

Accounts payable and accrued liabilities (Note 3)	\$ 2,420,880	\$ 2,210,971
AMS Restricted Reserve Fund (Note 5)	823,300	-
Deferred revenue (Note 5)	10,201,202	-
	<hr/>	<hr/>
	13,445,382	2,210,971

Net Assets

Unrestricted	6,260,212	5,566,756
	<hr/>	<hr/>
	\$ 19,705,594	\$ 7,777,727

On behalf of the Board:



Director

Automotive Materials Stewardship Inc. Statement of Changes in Net Assets

For the year ended December 31, 2020

	Unrestricted	Internally Restricted	Total
Balance, beginning of year	\$ 5,566,756	\$ -	\$ 5,566,756
Excess of revenue over expenses for the year	693,456	-	693,456
Balance, end of year	\$ 6,260,212	\$ -	\$ 6,260,212

For the year ended December 31, 2019

	Unrestricted	Internally Restricted	Total
Balance, beginning of year	\$ 3,936,142	\$ -	\$ 3,936,142
Excess of revenue over expenses for the year	1,630,614	-	1,630,614
Balance, end of year	\$ 5,566,756	\$ -	\$ 5,566,756

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

Automotive Materials Stewardship Inc. Statement of Operations

For the year ended December 31	2020	2019
Revenue		
Fee revenue	\$ 8,502,551	\$ 17,426,508
Surplus fund transfer (Note 5)	7,591,599	-
Supply chain income (Note 3)	1,719,238	1,852,177
Investment income	177,435	163,770
	<u>17,990,823</u>	<u>19,442,455</u>
Expenses		
Material management costs (Note 4)	15,038,596	15,478,294
Program management (Note 3)	1,938,379	1,816,242
Resource Productivity and Recovery Authority (Note 6)	291,765	490,257
Promotion and education	28,627	27,048
	<u>17,297,367</u>	<u>17,811,841</u>
Excess of revenue over expenses for the year	\$ 693,456	\$ 1,630,614

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	2020	2019
Cash provided by (used in)		
Operating activities		
Excess of revenue over expenses for the year	\$ 693,456	\$ 1,630,614
Adjustments to reconcile excess of revenue over expenses for the year to cash provided by operating activities		
Non-cash component of investment income	-	(22,018)
Changes in non-cash working capital balances:		
Accounts receivable	761,057	59,396
Prepaid expenses	7,890	(2,034)
Accounts payable and accrued liabilities	209,909	100,027
AMS Restricted Reserve Fund	823,300	-
Deferred revenue	10,201,202	-
	12,696,814	1,765,985
Investing activities		
Proceeds from (purchase of) investments	3,094,505	(55,112)
Increase in cash during the year	15,791,319	1,710,873
Cash, beginning of year	3,502,194	1,791,321
Cash, end of year	\$ 19,293,513	\$ 3,502,194

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

Automotive Materials Stewardship Inc.

Notes to Financial Statements

December 31, 2020

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.

The new draft regulation for Hazardous and Special Products in Ontario was issued on February 11, 2021 with the final regulation expected to take effect July 1, 2021. Under this new regulation, the Organization plans to offer services as a Producer Responsibility Organization (PRO) which will provide industry with a solution to meet their recycling obligations.

(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.

Automotive Materials Stewardship Inc. Notes to Financial Statements

December 31, 2020

1. Significant Accounting Policies - (Continued)

(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.

2. Investments

Fixed income investments have matured in 2020. In 2019, fixed income investments bore interest between 2.30% and 2.85% and matured between April 2020 and October 2020. Interest income earned on these instruments amounted to \$55,042 (2019 - \$77,130) 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, with automatic one year renewals. During the year, charges totaling \$1,750,000 (2019 - \$1,700,000) were paid to CSSA pursuant to this contract.

Included in accounts payable and accrued liabilities is \$169,811 (2019 - \$160,444) 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 SO. 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. On March 1, 2020 the agreement was amended to extend the term to June 30, 2021. Each year, SO will purchase their respective market share of automotive materials tonnage credits from the Organization. During the year, the Organization charged \$1,719,238 (2019 - \$1,852,177) to SO pursuant to this contract.

Included in accounts receivable is \$62,662 receivable from SO (2019 - \$129,363 in accounts payable).

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, 2020

4. Material Management Costs

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

5. Deferred Revenue and Fund Transfer

On June 30, 2021, SO's MHSW Program will be wound up and the Organization's operational responsibility under the Industry Stewardship Plan (ISP) for automotive materials, operated since 2017, will end. Materials managed under the Organization's ISP, as well as other materials included in the MHSW Program, will be managed according to an Individual Producer Responsibility (IPR) framework. The implementation of IPR will replace the collective responsibility for managing materials that producers have had under the ISP. The Organization intends to become a Producer Responsibility Organization (PRO) and continue providing producers with efficient services to carry out their individual responsibilities.

As part of the wind up plan, MHSW stewards should share in the financial benefits and burdens associated with disbursement of MHSW surplus funds and any wind up costs resulting from the transition. In part, SO submitted an ISO Surplus Transfer Addendum to the Resource Productivity and Recovery Authority (RPRA). In accordance with RPRA's conditions regarding its approval of the ISO Surplus Transfer Addendum, SO transferred surplus funds to the Organization in the amount of \$18,616,100. The AMS and SO Surplus Transfer Agreement was signed and dated on July 9, 2020. Of the \$18,616,100 funds received, the Organization is to allocate a minimum of \$823,300 into a restricted reserve fund (the "AMS Restricted Reserve Fund"), which will be used in the event of a transition delay to fund SO's compensable expenses in relation to the wind up. The balance of the funds not designated as AMS Restricted Reserve Fund of \$17,792,800 will be used to fund fee reductions to the Organization's Stewards. The fee reduction adjustments will be made effective December 31, 2020 and June 30, 2021. As at December 31, 2020, \$7,591,599 of the unrestricted funds were recognized into revenue in alignment with the steward fee reduction recognized.

6. 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.

Automotive Materials Stewardship Inc. Notes to Financial Statements

December 31, 2020

7. 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, unless otherwise noted. 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.

8. COVID-19 Impact

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

Although the Organization continues to operate, it is not possible to reliably estimate the length or effect of these developments, including the impact on the financial results of the Organization in future periods.