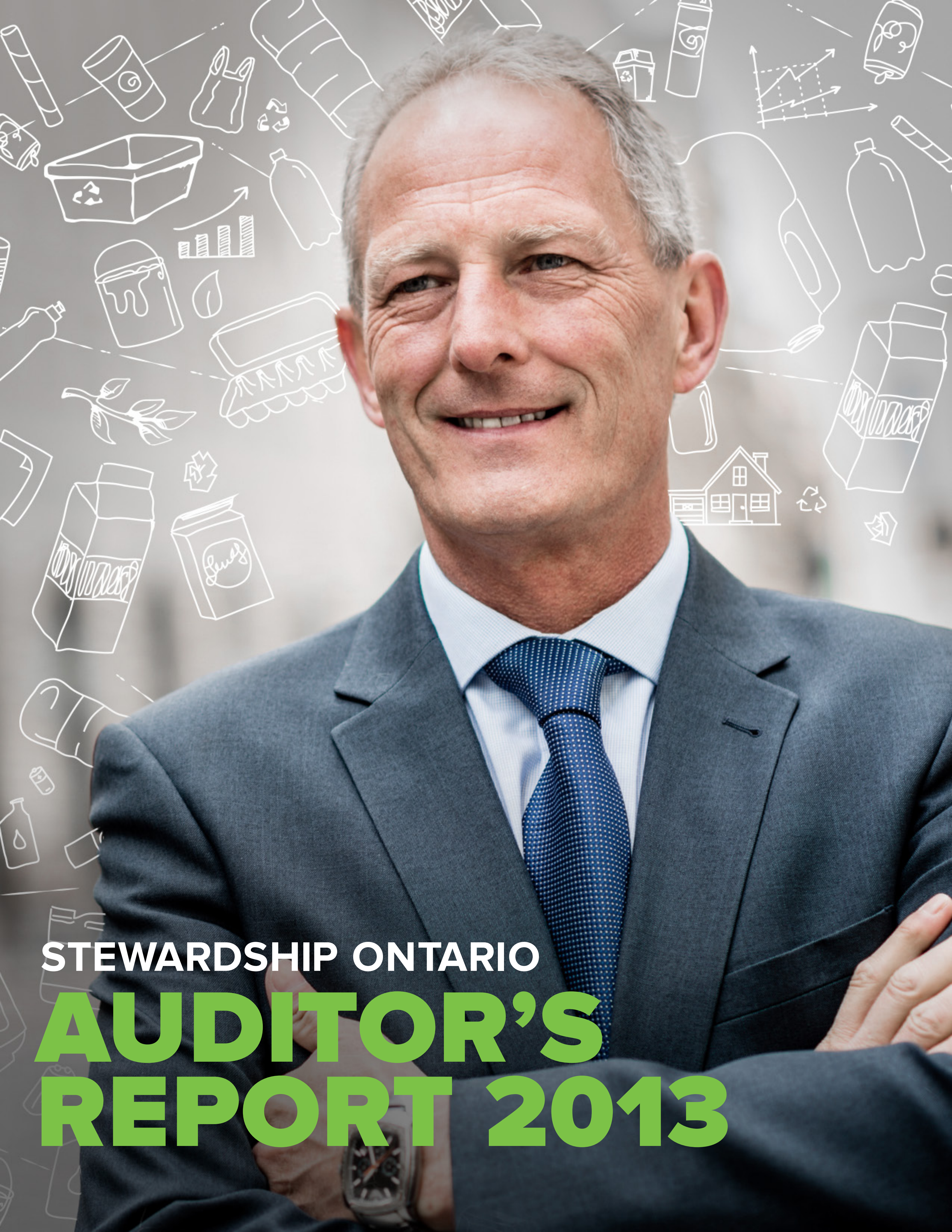

STEWARDSHIP ONTARIO

AUDITOR'S REPORT 2013

Stewardship Ontario

Financial Statements
For the year ended December 31, 2013

Stewardship Ontario

Financial Statements
For the year ended December 31, 2013

Contents

BDO

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

BDO Canada LLP
TD Bank Tower
66 Wellington Street West
Suite 3600, PO Box 131
Toronto, ON M5K 1H1 Canada

Independent Auditor's Report

To the Members of Stewardship Ontario

We have audited the accompanying financial statements of Stewardship Ontario, which comprise the balance sheet as at December 31, 2013, and the statement of changes in net assets, operations and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian 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.

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

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

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

Opinion
In our opinion, these financial statements present fairly, in all material respects, the financial position of Stewardship Ontario as at December 31, 2013, and the results of its operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

BDO Canada LLP

Chartered Accountants, Licensed Public Accountants

March 21, 2014
Toronto, Ontario

Stewardship Ontario
Balance Sheet

December 31	2013	2012
		(Note 13)
Assets		
Current		
Cash	**$ 6,965,562**	$ 7,535,772
Investments (Note 2)	**37,733,193**	32,126,192
Accounts and other receivables (Note 3)	**26,076,044**	49,864,010
Loan receivable (Note 4)	**330,000**	-
Prepaid expenses and deposits	**304,387**	427,230
	71,409,186	89,953,204
Capital assets (Note 5)	**263,505**	2,025,971
Investments (Note 2)	**43,389,161**	45,319,941
Long term receivables (Note 3)	**1,551,704**	6,642,584
Loan receivable (Note 4)	**1,320,000**	-
Convertible loans receivable (Note 6)	**1,500,000**	3,000,000
	$ 119,433,556	$ 146,941,700
Liabilities and Net Assets		
Current		
Accounts payable and accrued liabilities	**$ 34,634,768**	$ 54,283,686
Deferred revenue (Note 7)	**42,651,029**	46,676,170
	77,285,797	100,959,856
Net Assets		
Invested in capital assets	**263,505**	2,025,971
Unrestricted	**23,149,311**	30,531,282
Internally restricted (Note 8)	**18,734,943**	13,424,591
	42,147,759	45,981,844
	$ 119,433,556	$ 146,941,700

On behalf of the Board:

__________________ Director

__________________ Director

Stewardship Ontario
Statement of Changes in Net Assets

For the year ended December 31, 2013

	Invested in Capital Assets	Unrestricted	Internally Restricted	2013 Total
				(Note 13)
Balance, beginning of year	**$ 2,025,971**	**$ 30,531,282**	**$ 13,424,591**	**$ 45,981,844**
Excess (deficiency) of revenue over expenses for the year	**(116,275)**	**(1,993,727)**	**(1,724,083)**	**(3,834,085)**
Investment in capital assets	**3,809**	**(3,809)**	**-**	**-**
Proceeds on disposal of capital assets	**(1,650,000)**	**1,650,000**	**-**	**-**
Transfer to Oil Filter Fund (Note 8)	**-**	**(5,194,789)**	**5,194,789**	**-**
Transfer to Battery Fund (Note 8)	**-**	**(1,839,646)**	**1,839,646**	**-**
Balance, end of year	**$ 263,505**	**$ 23,149,311**	**$ 18,734,943**	**$ 42,147,759**

For the year ended December 31, 2012

	Invested in Capital Assets	Unrestricted	Internally Restricted	2012 Total
				(Note 13)
Balance, beginning of year	$ 1,656,525	$ 8,983,018	$ 9,068,769	$ 19,708,312
Excess (deficiency) of revenue over expenses for the year	(485,507)	27,553,217	(794,178)	26,273,532
Investment in capital assets	854,953	(854,953)	-	-
Plastic Market Development Fund (Note 8)	-	(3,000,000)	3,000,000	-
Blue Box Fund (Note 8)	-	(1,650,000)	1,650,000	-
Fibre Market Development Fund (Note 8)	-	(500,000)	500,000	-
Balance, end of year	$ 2,025,971	$ 30,531,282	$ 13,424,591	$ 45,981,844

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

Stewardship Ontario
Statement of Operations

For the year ended December 31	2013	2012
		(Note 13)
Revenue		
Blue Box program steward fees	**$ 99,789,519**	$104,638,471
MHSW program steward fees (Phase I)	**38,935,265**	49,170,731
MHSW deficit recovery fees (Phase I) (Note 3(b))	**-**	16,092,753
MHSW program fees (Phase II/III) (Note 3(a))	**-**	9,493,700
MHSW administrative fees	**-**	1,866,407
Investment income (Note 9)	**1,089,062**	958,287
Gain on sale of intangible asset (Note 4)	**218,903**	-
	140,032,749	182,220,349
Expenses		
Blue Box Program		
Municipal Transfer Payments	**91,192,259**	85,412,723
Continuous Improvement Fund (Note 11(c))	**1,168,014**	4,450,752
Research and development	**359,203**	906,311
Enterprise Information System	**532,073**	403,029
	93,251,549	91,172,815
MHSW Program		
Direct material costs (Phase I)	**37,171,290**	41,385,751
Direct material costs (Phase II/III)	**-**	9,493,700
Shared promotion and education	**1,254,352**	791,270
	38,425,642	51,670,721
Common costs		
Program management	**9,234,816**	10,927,208
Waste Diversion Ontario and Ministry of Environment charges (Note 10)	**1,454,827**	2,176,073
Bad debt expense on convertible loans receivable (Note 6)	**1,500,000**	-
	12,189,643	13,103,281
Total expenses	**143,866,834**	155,946,817
Excess (deficiency) of revenue over expenses for the year	**$ (3,834,085)**	$ 26,273,532

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

Stewardship Ontario
Statement of Cash Flows

For the year ended December 31	2013	2012
		(Note 13)
Cash provided by (used in)		
Operating activities		
Excess (deficiency) of revenue over expenses for the year	**$ (3,834,085)**	$ 26,273,532
Adjustments to reconcile excess (deficiency) of revenue over expenses for the year to cash provided by operating activities		
Amortization of capital assets	**335,177**	485,507
Non-cash component of investment income	**786,591**	445,406
Gain on sale of intangible asset	**(218,903)**	-
Allowance for convertible loans receivable	**1,500,000**	-
Changes in non-cash working capital balances:		
Accounts and other receivables	**23,787,966**	(28,118,274)
Prepaid expenses and deposits	**122,843**	(166,413)
Long term receivables	**5,090,880**	(6,642,584)
Accounts payable and accrued liabilities	**(19,648,918)**	(4,482,782)
Deferred revenue	**(4,025,141)**	7,984,343
	3,896,410	(4,221,265)
Investing activities		
Purchase of investments	**(23,742,125)**	(36,771,826)
Proceeds from investments	**19,279,314**	49,264,057
Purchase of capital assets	**(3,809)**	(854,953)
Convertible loans receivable	**-**	(3,000,000)
	(4,466,620)	8,637,278
Increase (decrease) in cash during the year	**(570,210)**	4,416,013
Cash, beginning of year	**7,535,772**	3,119,759
Cash, end of year	**$ 6,965,562**	$ 7,535,772
Non-cash transactions		
Sale of intangible asset (Note 4)	**$ 1,650,000**	$ -

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

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 behalf of Waste Diversion Ontario ("WDO"). On February 14, 2003, the Organization was formally incorporated in the Province of Ontario as a corporation without share capital. The Organization is a not-for-profit organization and as such is not subject to income taxes.

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.

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

On February 9, 2012, the Minister of the Environment exercised his powers under section 42(4) of the Waste Diversion Act to issue a regulation prescribing how the Organization is to finance the MHSW program (Phase I). Ontario Regulation 11/12 effectively amends the fee-setting methodology in the Consolidated MHSW Program Plan (Phase I) which allows the Organization to set fees on a per unit/volume basis. When Ontario Regulation 11/12 took effect on April 1, 2012, the Organization was required to apply a market share methodology to recover both ongoing operating costs and to also recover past deficits that have accumulated over the course of the program (see Note 3(b)). This new cost recovery methodology is designed to result in an economically sustainable program.

MHSW Program (Phase II/III)
In a letter dated September 22, 2009, the Minister of the Environment approved the commencement of the Consolidated MHSW plan, which added 14 new material categories to the program, to commence July 1, 2010 ("MHSW program (Phase II/III)"). On July 20, 2010, the Minister of the Environment, through Ontario Regulation 298/10, halted and under Ontario Regulation 396/10, put an end to the Organization’s ability to collect steward fees against the new materials and definitions under the MHSW program (Phase II/III). Material collection and the associated obligation to pay for these costs continued to exist through 2010, 2011 and 2012 for all materials under the MHSW program (Phase II/III). The Minister of the Environment has reimbursed the Organization for all costs deemed appropriate for the management of the materials introduced under the MHSW program (Phase II/III) (see Note 3(a)).

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 (Phase I) steward fees are recognized on a cost recovery basis when costs are incurred and collection is reasonably assured. The MHSW program fees (Phase II/III) are recognized on a cost recovery basis when costs are incurred and collection is reasonably assured. The MHSW administrative fees are recognized as services are provided.

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

(d) Financial Instruments

Money market pooled funds, guaranteed investment certificates and bonds 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.

Common shares and convertible loans receivable are carried at amortized cost (net of any impairments).

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) Capital Assets

Property, plant and equipment is recorded at cost less accumulated amortization and is amortized on the following basis:

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

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

1. Significant Accounting Policies - (Continued)

(f) Impairment of Long-Lived Assets

The Organization monitors events or changes in circumstances which may require an assessment of the recoverability of its long lived assets. In the event that facts and circumstances indicate that the Organization's long-lived assets may be impaired, an evaluation of recoverability would be performed. Such an evaluation entails comparing the estimated future undiscounted cash flows associated with the asset to the asset's carrying amount to determine if a write down to market value or discounted cash flow value is required.

(g) 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, investments and convertible loans receivable. Actual results could differ from management's best estimates as additional information becomes available in the future.

2. Investments

	2013	2012
Cash held with broker	**$ 711,598**	$ 466,181
Money market pooled funds	**5,786,921**	5,722,726
Guaranteed investment certificate	**23,773,669**	20,922,314
Bonds	**50,350,166**	49,834,912
Common shares, private company	**500,000**	500,000
	81,122,354	77,446,133
Less: Current portion	**37,733,193**	32,126,192
	$ 43,389,161	$ 45,319,941

Money market pooled funds, guaranteed investment certificates and bonds bear interest at 1.25% to 4.90% (2012 - 1.25% to 5.30%) and mature between March 2014 and April 2022 (2012 - May 2013 and April 2020). The decrease in market value of investments for the year ended December 31, 2013 amounted to $921,971 (2012 - $1,399,861) which is included in investment income (Note 9).

The Organization owns 544,818 common shares of a company representing a 8.45% ownership at December 31, 2013. The company is privately owned with no common share prices quoted in an active market.

3. Accounts and Other Receivables

	2013	2012
Blue Box and MHSW program steward fees	**$ 21,308,657**	$ 27,441,383
MHSW program fees (Phase II/III) (a)	**-**	17,341,333
MHSW deficit recovery fees (Phase I) (b)	**6,822,082**	11,956,652
Other	**24,509**	25,326
Allowance for doubtful accounts	**(527,500)**	(258,100)
	27,627,748	56,506,594
Less: Current portion	**26,076,044**	49,864,010
	$ 1,551,704	$ 6,642,584

(a) MHSW program fees (Phase II/III)

During 2013, the Minister of the Environment paid all remaining operating costs incurred by the Organization related to the materials covered by the expansion of the Consolidated MHSW Program.

(b) MHSW deficit recovery fees (Phase I)

The MHSW deficit recovery fees (Phase I) are receivable from stewards in quarterly installments over a three year period which commenced on May 15, 2012.

4. Loan Receivable and Significant Contracts

	2013	2012
Loan receivable	**$ 1,650,000**	$ -
Less: Current portion	**330,000**	-
	$ 1,320,000	$ -

During the year, the Organization entered into an agreement with Canadian Stewardship Services Alliance Inc. (“CSSA”) to sublicense its original intellectual property licenses and intellectual property associated therewith, being the Enterprise Information System, for consideration of $1,650,000. This agreement expires in 2023 with the option to renew for an additional five year period. The sale of the Enterprise Information System resulted in a gain on sale of intangible asset of $218,903, which is included in the statement of operations. Thereafter, the Organization entered into an arrangement with CSSA to use the intellectual property. During the year, the Organization incurred costs of $310,376 relating to this arrangement and is included in accounts payable and accrued liabilities at December 31, 2013.

Included in loans receivable is a loan to CSSA that bears interest at the bank prime rate and is repayable in five annual principal payments of $330,000.

4. Loan Receivable and Significant Contracts - (Continued)

On December 31, 2013, several key management personnel at the Organization were terminated and many of the staff were hired by CSSA. Effective January 1, 2014, the Organization entered into a Management Services Agreement with CSSA to provide management, administrative and technical support, other services and facilities for administrative, technical and reporting activities.

Certain members of the CSSA board of directors are also members of the Organization's board of directors that account for approximately 21% of the Organization's board membership.

5. Capital Assets

	2013		2012	
	Cost	**Accumulated Amortization**	Cost	Accumulated Amortization
Property, plant and equipment				
Computer equipment	**$ 134,071**	**$ 110,266**	$ 130,262	$ 88,743
Furniture and fixtures	**459,785**	**220,085**	459,785	128,128
	593,856	**330,351**	590,047	216,871
Intangible asset				
Enterprise Information System (Note 4)	**-**	**-**	2,660,366	1,007,571
	593,856	**330,351**	3,250,413	1,224,442
Net carrying amount		**$ 263,505**		$ 2,025,971

6. Convertible Loans Receivable

	2013	2012
Convertible loan, private company	**$ 1,500,000**	$ 1,500,000
Convertible loan, private company	**1,500,000**	1,500,000
Allowance for convertible loans	**(1,500,000)**	-
	$ 1,500,000	$ 3,000,000

During 2012, the Organization provided a $1.5 million convertible five year loan that bears interest at Bank of Canada prime rate plus 2% which is accrued and compounded monthly and is payable at the maturity date. The loan is convertible into common shares of the company at a discounted rate under certain conditions or at the option of the Organization at the maturity date. The loan is to a private company with no common share prices quoted in an active market.

During 2012, the Organization provided a $1.5 million convertible five year loan that bears interest at Bank of Canada prime rate plus 1% which is accrued and compounded monthly and may be converted into shares on the same terms as the principal. The loan is convertible into common shares of the company at a discounted rate under certain conditions or at the option of the Organization at the maturity date. The loan is to a private company with no common share prices quoted in an active market.

During the year, the Organization recognized an allowance for doubtful loans of $1,500,000 relating to the convertible loans as there is uncertainty relating to the collectability of the balances owing.

7. Deferred Revenue

	2013	2012
Blue Box Program		
Glass Market Development Fund	**$ 666,017**	$ 666,017
Effectiveness & Efficiency Fund	**965,507**	964,965
Continuous Improvement Fund	**31,879,962**	35,905,645
	33,511,486	37,536,627
MHSW Program		
Deferred Revenue	**9,139,543**	9,139,543
	$ 42,651,029	$ 46,676,170

Deferred revenue in the Blue Box Program represents unspent resources that are externally restricted for various programs. During the year, the Continuous Improvement Fund ("CIF") received net contributions of $1,494,478 (2012 - $4,852,658) and spent $5,520,161 (2012 - $5,989,733) on continuous improvement activities.

7. Deferred Revenue - (Continued)

Each year, the Organization is directed to hold back a portion of the municipal blue box obligation for the CIF; see Note 11(c) for further details regarding the fund. The CIF is managed by external parties and directs the Organization to release funds as required.

Commitments related to the above deferred revenues are further explained in Note 11.

Deferred revenue for the MHSW program (Phase I) represents fee revenue billed in the first quarter of 2012 and is deferred until future periods in accordance with the Organization's revenue recognition policy (Note 1(c)). This policy changed in 2012 after the issuance of Ontario Regulation 11/12 that requires MHSW program (Phase I) invoices to be issued on a cost recovery basis.

8. Internally Restricted Net Assets

	2013	2012
Sustaining Fund	**$ 3,500,000**	$ 3,500,000
Plastic Market Development Fund	**6,055,548**	7,774,591
Blue Box Fund	**1,649,520**	1,650,000
Fibre Market Development Fund	**495,440**	500,000
Oil Filter Surplus Fund	**5,194,789**	-
Battery Surplus Fund	**1,839,646**	-
	$ 18,734,943	$ 13,424,591

The directors recognized the need for a Sustaining Fund to enable the Organization to carry out its non-profit activities and satisfy all of its obligations for a period of one year and therefore internally restricted $3,500,000 for this purpose.

The directors authorized the establishment of a fund for investment in infrastructure for plastic markets and activities for their development. During the year, the directors internally restricted $Nil (2012 – $3,000,000), $219,043 (2012 – $794,178) was spent on plastics market development activities and $1,500,000 was recognized as a bad debt expense (Note 6).

The directors authorized the establishment of the Blue Box Fund to support future efficiency in the Blue Box supply chain and therefore internally restricted $1,650,000 in 2012 for this purpose. During the year, $480 (2012 – $nil) was spent on Blue Box supply chain activities.

The directors authorized the establishment of the Fibre Market Development Fund to develop markets to support additional recycling and efficiency of fibres recycled in the Blue Box Program and internally restricted $500,000 in 2012 for this purpose. During the year, $4,560 (2012 – $nil) was spent on fibre market development activities.

During the year, the directors authorized the establishment of the Oil Filter Surplus Fund to support the safe disposition of oil filters and internally restricted $5,194,789.

During the year, the directors authorized the establishment of the Battery Surplus Fund to support the safe disposition of batteries and internally restricted $1,839,646.

9. Investment Income

	2013	2012
Interest income	**$ 2,370,380**	$ 3,162,834
Loss on sale of investments	**(196,382)**	(644,233)
	2,173,998	2,518,601
Adjustment to fair value	**(921,971)**	(1,399,861)
Investment expenses	**(162,965)**	(160,453)
	$ 1,089,062	$ 958,287

10. Waste Diversion Ontario

The WDO caused the Organization to be created under the WDA to act as an IFO for waste diversion programs (Note 1). Under the Blue Box and MHSW program agreements, the Organization is required to collect fees to cover both program operations and the program specific and common costs of WDO that relate to program oversight.

11. Commitments

(a) Glass Market Development Fund

The Blue Box Program Plan committed to pay $2,901,525 to a Glass Market Development Fund from contributions from stewards of glass. As of December 31, 2013, the Organization has paid $2,235,508 and the remaining balance is restricted for glass market development projects.

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

The intent of the E&E Fund was to provide support to Ontario municipalities to help reduce the cost of their Blue Box recycling programs and increase the tonnes recovered. This initiative was part of the Blue Box Program Plan that was created as a result of Ontario's Waste Diversion Act, 2002, and an integral part of the plan to help Ontario achieve the Minister's recycling target of 60% diversion of Blue Box waste by 2008 and to maximize efficiency of individual Blue Box municipal recycling programs and of the system as a whole. As of January 1, 2008, the fund was collapsed and there still remains funds that are unspent. The E&E Fund contributions were fully committed by the end of 2008, and through 2009, approved E&E Fund projects continued to be implemented. In 2009, the Municipal Industry Program Committee ("MIPC") agreed that unspent E&E Fund Contributions would be transferred to the Continuous Improvement Fund ("CIF") as projects were completed. At December 31, 2013, the E&E Fund balance is $965,507. During the year, no funds were transferred to the CIF.

11. Commitments - (Continued)

(c) Continuous Improvement Fund ("CIF")

The CIF provides grants and loans to municipalities to execute projects that will increase the efficiency of municipal Blue Box recycling and help boost system effectiveness. The CIF started in 2008 with a three year mandate to direct 20% of the Organization's municipal funding obligation to support projects that will identify and implement best practices, examine and test emerging technologies, employ innovative solutions to increase Blue Box materials marketed, and promote gains in cost-effectiveness that can be implemented province wide. Currently, five percent of the annual municipal obligation funded by the Organization's stewards is passed along to the CIF each year and any unused amounts are reflected in Deferred Revenue (Note 7). As of December 31, 2013, approved project funding and related commitments for the CIF amounted to approximately $17,100,000 of the total fund balance of $31,879,962.

(d) Realty Lease Agreements

Under the terms of lease agreements, the Organization is committed to pay basic rent plus operating costs approximately as follows:

2014	$ 377,900
2015	359,400
2016	360,000
2017	160,700
	$ 1,258,000

12. 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) General Objectives, Policies and Processes:

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

12. Financial Instrument Risk Exposure and Management - (Continued)

(b) Credit Risk:

Financial instruments potentially exposed to credit risk include cash, investments, accounts and other receivables, long term receivables, loan receivable and convertible loans receivable. Management considers its exposure to credit risk over cash to be remote as the Organization holds cash deposits at a major Canadian bank. Management considers its exposure to credit risk over investments to be remote as the Organization invests in federal or provincial government securities, corporate bonds, securities backed by any chartered bank, or guaranteed investment certificates. Accounts and other receivables, loans receivable and long term 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 convertible receivables and loans receivable is approximately $2,027,500 (2012 - $271,000).

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

(c) Interest Rate Risk:

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

(d) Liquidity Risk:

Liquidity risk is the risk that the Organization will not be able to meet its obligations as they come due. The two programs operated by the Organization carry substantially different risks in the ability to forecast and control 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. The introduction of Ontario Regulation 11/12 Amending Ontario Regulation 542/06 that changes the fee setting methodology for the MHSW Phase I Program allows 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)).

12. Financial Instrument Risk Exposure and Management - (Continued)

(e) Market Risk:

The Organization has common shares and convertible loans receivable which are subject to market value risk. The investments are in private companies with no common share prices quoted in an active market.

13. Prior Period Adjustment

During 2012, the Organization transitioned from a fee-setting methodology in the Consolidated MHSW Program Plan (Phase 1) to a market share methodology (Note 1(a)). As a result of the transition, stewards were invoiced in advance during the first quarter of 2012 under the fee-setting methodology and invoiced for the first quarter's operating costs under the cost recovery methodology. At December 31, 2012, the amount of $9,139,543 relating to the first quarter's operating costs recovered was recognized as a reduction in accounts receivable. It was subsequently determined that these funds should be recognized as revenue at the end of the program. Therefore, an adjustment was recorded to reclassify the funds received from accounts receivable to deferred revenue at December 31, 2012.

During the year, the Organization recovered MHSW program fees from the Ministry of the Environment (Note 1(a)) including $5,652,006 that was written off during 2012. Therefore, an adjustment was recorded to reverse the bad debt write down and recognize the amount receivable from the Ministry of the Environment at December 31, 2012.

The following table shows the impact of prior period adjustments on the financial statements. There was no significant impact on the cash flows of the Company:

13. Prior Period Adjustment - (Continued)

	As Originally Reported	Deferred Revenue Adjustment	Bad Debt Write-off Adjustment	Total Adjustment	Restated
Balance Sheet as at December 31, 2012					
Accounts and other receivables	$ 35,072,461	$ 9,139,543	$ 5,652,006	$ 14,791,549	**$ 49,864,010**
Deferred revenue	37,536,627	9,139,543	-	9,139,543	**46,676,170**
	$ (2,464,166)	$ -	$ 5,652,006	$ 5,652,006	**$ 3,187,840**
Statement of Operations For the year ended December 31, 2012					
Bad debt expense	$ 5,652,006	$ -	$ (5,652,006)	$ (5,652,006)	$ -
Statement of Changes in Net Assets For the year ended December 31, 2012					
Opening balance	$ 19,708,312	$ -	$ -	$ -	**$ 19,708,312**
Excess of revenue over expenses for the year	20,621,526	-	5,652,006	5,652,006	**26,273,532**
Ending balance	$ 40,329,838	$ -	$ 5,652,006	$ 5,652,006	**$ 45,981,844**