



Ontario Tire Stewardship

2010 Annual Report

March 31, 2011

Message from the Chairman



We are pleased to present this 2010 Annual Report on behalf of Ontario Tire Stewardship. The results reflect the combined activity from the organization's official start in September 2009 through to December 2010.

While it's been a long road to reach this point, I am proud to report that OTS has enjoyed great success since launching the program 20 months ago. The history of scrap tire management in this province has been a tumultuous one to be sure. But in the end, all the major stakeholders, including tire retailers, haulers and processors and Waste Diversion Ontario, and yes, even Ministry of Environment officials, came together to help build a program that would work for Ontario and Ontarians.

And while it's always dangerous to single out specific groups, we simply must give credit to the OTS Board for its tireless, selfless efforts in providing experienced business leadership to its policy setting directives over the years. Throughout this endeavour, the Board has focused on ensuring stability and successful delivery of the program to meet environmental, economic and social benefits to the province and Ontarians. In addition the Board is always mindful of the business needs of Stewards including taking steps to maintain a level playing-field for the industry, supporting the development of strong, sustainable markets for tire-derived products, and ensuring the program is delivered in accordance with the strictest guidelines for financial management and organizational governance.

As a young organization OTS continues to assess challenges and program risks ahead, however we are well-positioned to forecast and plan for these because of the knowledge and insights of our members and the industry, and because of the support provided by the tire stewardship programs in the other Canadian provinces.

The Board will continue to explore the optimal models for delivering on the program commitments going forward in 2011 and beyond. We remain committed to transparency, accountability, efficiency and good corporate governance practices in all areas of our responsibility. On behalf of the entire Board we look forward to continuing to work with all our program stakeholders to ensure Ontario's scrap tires get made into green products, and to deliver a sustainable program that benefit all Ontarians.

Sincerely

A handwritten signature in blue ink, appearing to read 'Glenn Maidment'. The signature is stylized with a large, sweeping 'G' and a long, horizontal stroke extending to the right.

Glenn Maidment
Chairman

Message from the Executive Director



Since our launch on September 2009 OTS has undertaken a tremendous amount of work to deliver a Used Tires Program for Ontario that delivers and exceeds the commitments outlined in the approved plan. This report outlines the high-level program performance through the first program year, and identifies some of the work still to be done.

The introduction of the program almost immediately changed the way the province's used tires were managed and the economics of their recycling. The scrap tire industry responded to the positive economic signals provided by the focus on Ontario processing and manufacturing capacity and the introduction of the incentives offered to the market by OTS by rapidly ramping up capacity and investment.

In 2010 the most significant changes have come in the processing sector, where significant increases in capacity have begun to come on-line. Both existing and new-to-Ontario Processors have taken advantage of the reliable supply of scrap tires and the incentives to make investments in the province. These developments have meant that OTS has been able to make considerable progress towards its goal of having 100% of Ontario scrap tires processed in the province. OTS anticipates having sufficient capacity to manage all of the on-road scrap tires generated in Ontario by mid-2011.

OTS also successfully deployed programs designed to bolster investment and innovation among the manufacturing industry in Ontario including the Manufacturing Incentive program and the OTS Research & Development Program, launched in the fourth quarter of 2010. Both programs offer funding to innovative organizations seeking to use recycled tire rubber in the production of new, high-performance materials and products.

The execution of a robust communication program that included targeted campaigns to consumers, Stewards and the industry helped the program gain positive traction in 2009 and 2010. This was followed-up by the Tire Life Check Program, launched in the summer of 2010, educating Ontario's drivers on how to properly maintain their tires so as to get the best performance and longest use from them, in addition to providing general information about the program and the products made from recycled tire rubber in Ontario.

On behalf of the entire OTS Team we would like to thank the industry and the Stewards for making the successes of 2010 achievable. We look forward to working with all our stakeholders in the coming year to build upon our initial success and make Ontario's recycled tire rubber manufacturing industry the strongest and most innovative in North America.

Sincerely,

A handwritten signature in black ink, appearing to read 'MH', followed by a long horizontal line.

Andrew Horsman
Executive Director

Introduction

In 2010 the Ontario Used Tires Program commenced the first full year of operations. Having launched September 1, 2009 and focused much of the 2009 activities on registering Stewards and Operational Stakeholders (Collectors, Haulers and Processors) in 2010 OTS expanded its focus to implementing measures that would support the efficient and effective delivery of the program in Ontario. In addition OTS began developing some of the more strategic elements of the program, including a Promotion & Education strategy and campaign that expanded beyond raising awareness about the program, to include initiatives to educate Ontario drivers on how to properly maintain their tires for maximum longevity, safety and performance, and to raise awareness of the high-performance sustainable products made in Ontario from recycled tire rubber.

2010 Used Tires Diversion Performance

- **Passenger & Light Truck Tires: 96%**
- **Medium Truck Tires: 115%**
- **Off-The-Road Tires: 150%**

2010 also saw significant activity in the Ontario used tires management marketplace. While Collector registrations have continued to grow steadily (though overall numbers remain below Plan forecasts), Hauler registrations in 2010 grew beyond expectations with the entry of many new Haulers into the Ontario market. This has resulted in a complex evolution of the relationships between Ontario Haulers and Processors, but has ultimately offered greater service and geographic coverage, ensuring that Ontario's scrap tires are being picked-up wherever they originate in the Province.

Developments in the scrap tire recycling market have been equally dramatic. As was expected based on consultations during program development, Ontario Processors and Recycled Product Manufacturers (RPMs) increased production and invested in capacity upgrades to be able to leverage the dual benefits of the program to their sector; secure supply of tires and infusion of funds through the Processing and Manufacturing Incentive programs. While in some cases these upgrades took longer than expected, or resulted in short-term provincial capacity decreases, the trend into 2011 is one of escalating processing and manufacturing in Ontario.

OTS has also strategically engaged with the industry through its Promotion & Education (P&E) and Research and Development (R&D) programs. OTS has been investigating how best it can support the growth of existing markets for Tire-Derived Products (TDPs), and foster the development of new Ontario markets including the use of Rubberized Asphalt by the Ministry of Transportation and Ontario Regions and Municipalities. OTS is

supporting made-in-Ontario innovation and thought-leadership through its R&D program aimed at technologies near-commercialization that have the potential to increase uses for TDPs in new, high-performance applications.

The story of 2010 is one of success for OTS. From exceeding its diversion objectives to supporting the development of new green manufacturing capacity in the province to exploring new possibilities for recycled rubber with the industry, OTS is committed to carrying this momentum forward to 2011.

Communicating with Stakeholders

Through 2010 OTS continued a multi-pronged stakeholder engagement and communication program to gather feedback from Stewards and operational stakeholders regarding program operations, policy development and revision and overall program performance. In addition OTS leverage these established communication tools to support Promotion & Education activities around raising awareness of manufactured products containing recycled tire rubber.

Type of OTS Activities	Date of Activity	OTS Participant Types				
		Steward	Collector	Hauler	Processor	Recycled Product Manufactures
Collector Claims Filing Webinar	January 13 2010		X			
Collector Claims Announcement First Filing	January 20 2010		X			
Technical Committee Meeting	January 26 2010		X	X	X	X
Hauler Claims Submission Review Workshop	February 2010			X		
Technical Committee Meeting	March 9 2010		X	X	X	X
RPM Registration & Training -In Person Session	April 26 2010					X
Processor Conference Call-Processors	May 28 2010				X	
RPM Claims Training	May 25 2010					X
Hauler Conference Call Regarding Adhoc/Redirects	June 2 2010			X		
Processor Conference Call-Work Around Procedures	June 29 2010				X	
Chartered Accountant Notice Sent to Stewards	July 2010	X				
Notice to Collectors New Claims Adjustments	July 19 2010		X			
Technical Committee Meeting	July 21 2010		X	X	X	X
Processor Workshop- Claims Processing- new development	July 22 2010				X	
Technical Committee Meeting	August 4 2010		X	X	X	X
Hauler Consultation Session 2011 TI Model	September 2 2010			X		
Technical Committee Meeting	September 22 2010		X	X	X	X
Steward Training Session Webinar	November 2010	X				
Sub Collectors Announcement	November 2010		X			
Pre-Program Tire Plan Announcement	November 2010		X			
Technical Committee Meeting	November 3 2010		X	X	X	X
RPM Incentive Claims Review 2011	November 24 2010					X
Collector Claims Filing Webinar	December 1 2010		X			
Technical Committee Meeting	December 16 2010		X	X	X	X
Temporary Tire Storage Program Announcement	December 21 2010				X	
Hauler Information Session 2011 TI Model	January 12 2011			X		
Technical Committee Meeting	March 9 2011		X	X	X	X

2010 Tire Supply

Overall 2009-2010 Tire supply has not been in-line with Plan forecast, mainly due to broader economic conditions negatively impacting on tire supply, though supply of Medium Truck (MT) tires recovered through the year and exceeded the forecast. Quantities of On-road tires supplied

into Ontario during the 12 months of 2010 were 105% of the quantities assumed in the Program Plan, with Passenger and Light Truck (PLT) tire supply being 95% of expected supply and (MT) tire supply being 129% of expected supply. Quantities of Off-the-Road (OTR) tires supplied were 18% of expected supply for the same period. These variances resulted in OTS restating the tonnage objectives for diversion contained in the Plan, however the percentage objectives have been maintained.

These variations in quantities of tires supplied to the market have both budgetary and diversion implications. Variances in the supply of On-Road tires drove higher revenues that allowed OTS to absorb higher-than expected operational costs resulting from increased scrap tire volumes and the increased reliance on out-of-province processing. OTS has consulted with Stewards through 2010 and has determined that a forecast 1% increase in tire supply over 2009-2010 annualized volumes is appropriate for On-Road tires.

The variance in the supply of OTR tires, and consequently revenues, was not matched by a decrease in the volumes of scrap tires requiring management under the Used Tires Program. Determining 2011 Supply of OTR tires remains a work in progress. The significant variance in OTR tire supply between the approved plan and actual in 2009-2010 has been the primary driver of the budget shortfall in the current program year. OTS is continuing to work with its Stewards and stakeholders to improve supply projections.

Tire Supply (in Tonnes)	Tire Type		
	PLT	MT	OTR
2009	36,420	8,888	5,079
2010	100,458	33,186	14,323

Collection, Transportation & Reuse

At the time of writing this report OTS had registered over 6,300 Collectors across Ontario. While this number is 46% of the Year 1 collection site target indicated in the approved Plan, used tire collection rates for both On-road and OTR tires exceed program targets. In addition, Collector registration continues to increase by approximately 30 applications per week, indicating that the potential collection sites are continuing to realize the benefits of registration and are seeking to join the program.

Collection Sites	Year 1 Collection Sites Target	Actual Collection Sites December 31, 2010	Actual as % of Year 1 Target
Garages	2,000	2,515	126%
Municipal waste management sites	79	398	504%
Tire retailers	11,500	3,029	26%
Mass merchants	289	117	40%
Other private collection sites	30	303	1008%
Total	13,898	6,362	46%

In the 16 months since program launch Collectors registered with OTS have collected over 205,000 tonnes of tires, or approximately 125% of the restated collection objective. On-road tire collection exceeded the restated objective by approximately 11%, while OTR tire collection exceeded the restated objective by 729%. As noted under “Tires Supplied” OTR Supply fell significantly short of the assumed quantities supplied in the Plan, resulting in a large decrease in the restated OTR Tire Supply driving the variance. However, even as compared to the collection objectives in the approved Plan, OTR tire collection exceeded the targets by 62%.

In 2010, OTS also managed 161 Special Tire Collection (STC) events which resulted in the collection of approximately 90,000 tires. The majority of these events were either hosted by municipalities as part of their regularly held collection event days, or were requested by residents in rural and/or agricultural areas where accumulations of scrap tires were used for silage or other purposes.

OTS registered Haulers delivered 159,000 tonnes of tires to OTS registered Processors in 2009-2010. Of this quantity approximately 62% were delivered to Processors located in Ontario, while 38% were delivered to Processors registered with OTS but located outside of the province. This was consistent with the Ontario processing capacity estimates completed during Plan development where OTS assumed Ontario processing capacity to be sufficient to manage approximately 60% of the scrap tires generated annually in the province.

Used tires are culled for reuse at all 3 levels of the whole used tire management chain. Cull for reuse (either for sale as used tires in domestic or export markets) or retreading occurs predominantly at the Collector and Hauler level, while a limited amount of cull for reuse occurred at selected Ontario Processors. Overall, PLT tire tonnes sent for reuse were approximately 10% of collected tonnes. While not specifically estimated in the approved Plan, OTS did track reuse of both MT and OTR tires at 9% and 5% respectively.

2009 Deliveries to Processors					
	Tire Type				
Destination	PLT	MT	OTR	Total	% of Total Tonnes Delivered
In Province Deliveries	19,773	6,443	2,024	28,241	78%
Out of Province Deliveries	6,129	1,261	674	8,064	22%
Processor Cull (-ve)	-95	0	0	-95	0%
Total Deliveries	25,808	7,704	2,698	36,210	

2010 Deliveries to Processors					
	Tire Type				
Destination	PLT	MT	OTR	Total	% of Total Tonnes Delivered
In Province Deliveries	51,210	13,686	4,779	69,675	57%
Out of Province Deliveries	26,303	15,764	11,122	53,189	43%
Processor Cull (-ve)	-63	-7	0	-70	0%
Total Deliveries	77,451	29,442	15,901	122,794	

¹ Throughout this document data presented has been rounded to display only whole numbers for ease of consumption by the reader. In certain instances this may result in rounding errors in the calculations contained in the tables.

TOTAL 2009 REUSE VS RETREADING					
	PLT	MT	OTR	Total	% of Total Reuse
Reuse	2,250	638	138	3,025	96%
Retread	0	12	116	129	4%
Total				3,154	

TOTAL 2010 REUSE VS RETREADING					
	PLT	MT	OTR	Total	% of Total Reuse
Reuse	9,738	3,279	967	13,983	93%
Retread	0	405	616	1,021	7%
Total				15,004	

Scrap Tire Processing and Manufacturing

During the 2009-2010 program year, OTS-registered Processors received 159,000 tonnes of scrap tires to be processed into Tire-Derived Products (TDPs) as defined by OTS:

OTS Tire-Derived Product (TDP) Categories

Product	Description
TDP 1	95% minus 20 mesh, free of steel
TDP2	80% minus 8 mesh, free of steel
TDP3	Minus ¼" sieve, free of steel
TDP4	Fabricated products such as blasting mats etc. must utilize at minimum 75% of the tire by weight
TDP5	Primary Shred used as Tire Derived Aggregate or as a feeder stock for Crumb Rubber production

Ontario Processors are paid incentives upon proof of sale of the TDP produced to an approved end-use. These Processing Incentives (PIs) are tiered so as to recognize the production of higher-value TDPs and the levels of investment required to produce these products.

In addition to the volumes of tires delivered to Ontario Processors, 38% of the scrap tires to be recycled were delivered to Out-of-Province Processors who had executed agreements with OTS. These agreements stipulated that Ontario tires may only be used in the production of TDPs destined for approved diversion end-uses and that TDPs sent for disposal (e.g. to be burned as fuel or to be used as landfill cover) would not be considered eligible for payment.

Through the 2009-2010 year there were significant changes in the Ontario Processing market. Existing Ontario Processors leveraged the secure supply of scrap tires and the investment by OTS in the form of PIs to expand production and add capacity to their operations. Through these enhancements Ontario Processors added approximately 1,500 tonnes of processing capacity in the province.

The introduction of the Used Tires Program also attracted significant interest from out-of-province Processors regarding the Ontario market. The schedule of PIs and Manufacturing Incentives (MIs) introduced by OTS stimulated four(4) out-of-province Processors to seek to establish new operations in the province. While exact timelines for each to be fully operational are still being developed at the time of writing this report the first should be fully operational by the end of April with the other 3 coming on-line through 2011. Importantly one of the Processors will specialize in the processing of OTR tires, for which very little processing capacity currently exists in the province.

OTS is actively collaborating with Ontario Processors and the consumers of TDPs to grow the market for high-value products made from Ontario TDPs. The 2010 introduction of the MI program resulted in a significant increase in the demand for Ontario TDPs among Ontario Recycled Product Manufacturers (RPMs) as they sought to maximize their eligibility for the MI offered by OTS. In all, the 2009-2010 program year recorded over 7,200 tonnes of Ontario TDPs flowing to Ontario RPMs for use in the manufacture of moulded, calendered and extruded products. OTS will significantly expand the MI program in 2011 to build on this early success.

Through the 2009-2010 Program year Ontario TDP production totalled 126,584 tonnes.

2009 TDP Production		Weight (Tonnes)
On-Road Tires	<i>TDP1</i>	1,526
	<i>TDP2</i>	5,098
	<i>TDP3</i>	732
	<i>TDP4</i>	386
	<i>TDP5</i>	10,041
	<i>Disposal</i>	0
Off-Road Tires	<i>TDP1</i>	0
	<i>TDP2</i>	0
	<i>TDP3</i>	0
	<i>TDP4</i>	61
	<i>TDP5</i>	1,007
	<i>Disposal</i>	0

2009 Residuals Management					
	Material Type (Tonnes)				
End Use	Fluff	Steel/Metal	Other**	Total	% of Total Residuals
Recycled/Reuse	0	735	0	735	33%
Disposal	1,295		221	1,516	67%

2010 TDP Production		Weight (Tonnes)
On-Road Tires	<i>TDP1</i>	2,679
	<i>TDP2</i>	34,436
	<i>TDP3</i>	9,173
	<i>TDP4</i>	3,609
	<i>TDP5</i>	41,890
	<i>Disposal</i>	0
Off-Road Tires	<i>TDP1</i>	907
	<i>TDP2</i>	95
	<i>TDP3</i>	818
	<i>TDP4</i>	879
	<i>TDP5</i>	13,248
	<i>Disposal</i>	0

2010 Residuals Management					
	Material Type (Tonnes)				
End Use	Fluff	Steel/Metal	Other**	Total	% of Total Residuals
Recycled/Reuse	44	7,773	0	7,817	66%
Disposal	3,449	0	616	4,065	34%

** Other includes material that was not suitable for processing (old rubber etc)

In both 2009 and 2010 significant quantities of TDP5 (“Shred”) were produced. While some were processed for use in the aggregate replacement market a significant portion was produced as a “feedstock”, sold to both in-province and out-of-province processors to be processed further into higher-value TDPs. The in-province occurrence of this activity was limited in 2009-2010, however the shipments of TDP5 to out-of-province destinations were more significant. Based on discussions with both in and out of province Processors this activity is expected to decline in 2011 as Ontario capacity increases and out-of-province Processors establish processing operations in Ontario (there is a general alignment between out-of-province Processors seeking to establish operations in Ontario and those that received TDP5 from Ontario shredding operations).

OTS Market Development Activities

OTS has also implemented strategic initiatives to grow demand for TDPs and manufactured products in the Ontario market. While OTS Promotion and Education (P&E) initiatives in early 2010 focused on continuing program launch messaging and educating consumers about the program and benefits, April saw OTS participate in the Green Living Show where the core message was focused on education about the products that are made from recycled tire rubber and their inherent performance and sustainability benefits.

OTS built on this first trade show outing with participation at a number of consumer and industry trade shows including the Association of Municipalities of Ontario Annual Convention and Trade Show, the Construct Canada Show, the International Home Show and the Rubber Association of Canada's Rubber Recycling Conference. The communications focus at these shows was on educating the delegates on the manufactured products made from recycled rubber that were available to them and about the performance, life-cycle cost and sustainability benefits. Overall interest was high, and OTS has been engaging delegates (municipalities, property maintenance companies, residential and commercial builders, etc.) to develop opportunities for demonstration projects.

OTS also organized a "Recyclers Investment Workshop" held in Toronto in September 2010. The workshop focused on highlighting the funding available from the Stewardship organizations for Ontario-based recycling companies to operate in the province, as well as the public and private funding programs available to these companies. The session delivered a positive message to the recycling community and stimulated increased interest among recyclers and manufacturers, both in-province and from other markets in the opportunities available in Ontario. The programs identified in the workshop were also summarized in an OTS "Welcome to Ontario" manual that has been distributed widely to the scrap tire processor and manufacturer community.

In 2010 OTS also developed the Research & Development (R&D) Grant program and announced the first call for proposals in December 2010. This Program provides grants of up to \$250,000 to commercially-relevant R&D using Ontario recycled rubber. Grants are assessed by an independent panel composed of experts in the materials specification, materials engineering, education and research sectors, and are assessed for technical merit and commercial relevance by an independent secretariat organization. At the time of writing this report OTS had received considerable interest in the grant program and anticipates receiving multiple proposals in early 2011.

Educating the Consumer

2010 consumer education activities included initiatives to ensure program transparency and clearly communicate program operation, funding and diversion objectives. OTS distributed Point-of-Sale (POS) materials to over 4,000 Collectors, undertook the development and distribution of news articles in community and major daily newspapers and supported retailers in the development of additional POS materials that detailed the financial breakdown of the TSF in response to consumer queries regarding the full scope of the activities delivered by OTS.

Additionally OTS participated in multiple consumer-facing trade-shows and conferences, most significantly the 2010 Green Living Show. At these shows OTS staff engaged thousands of consumers one-on-one in explaining the objectives and operations of the Used Tires Program, including addressing the finding of the program and the TSF that may be passed onto the consumer at retail. Consumer response to this engagement was positive and highlighted a overall high level of interest from consumers in understanding what happens to scrap tires in Ontario under the program. OTS staff showcased manufactured products made from recycled tires and provided information on the benefits these products offered vs. virgin materials.

Also in 2010, OTS developed and deployed a program to educate Ontario drivers on how to extend the life of their tires. Two teams of trained staff educated Ontario residents on proper tire maintenance, tire pressure, wear assessments, the importance of rotation and appropriate tire management practices.

The teams visited 63 event locations throughout the province over 93 days interacting with over 60,000 drivers. The teams checked more than 2,600 tires noting that 21% were over inflated, 16% were under inflated and 63% were correctly inflated. A total of 32,200 Tire Maintenance Tip Sheets, 31,884 tread wear indicators and 8,090 tire pressure gauges were distributed.

Information on existing tire maintenance practices was compiled to serve as a baseline to assess the program's effectiveness. Four teams travelled with Tire Derived Product samples that served to raise awareness of the products made from recycled tire rubber.

Tire Pressure Checks

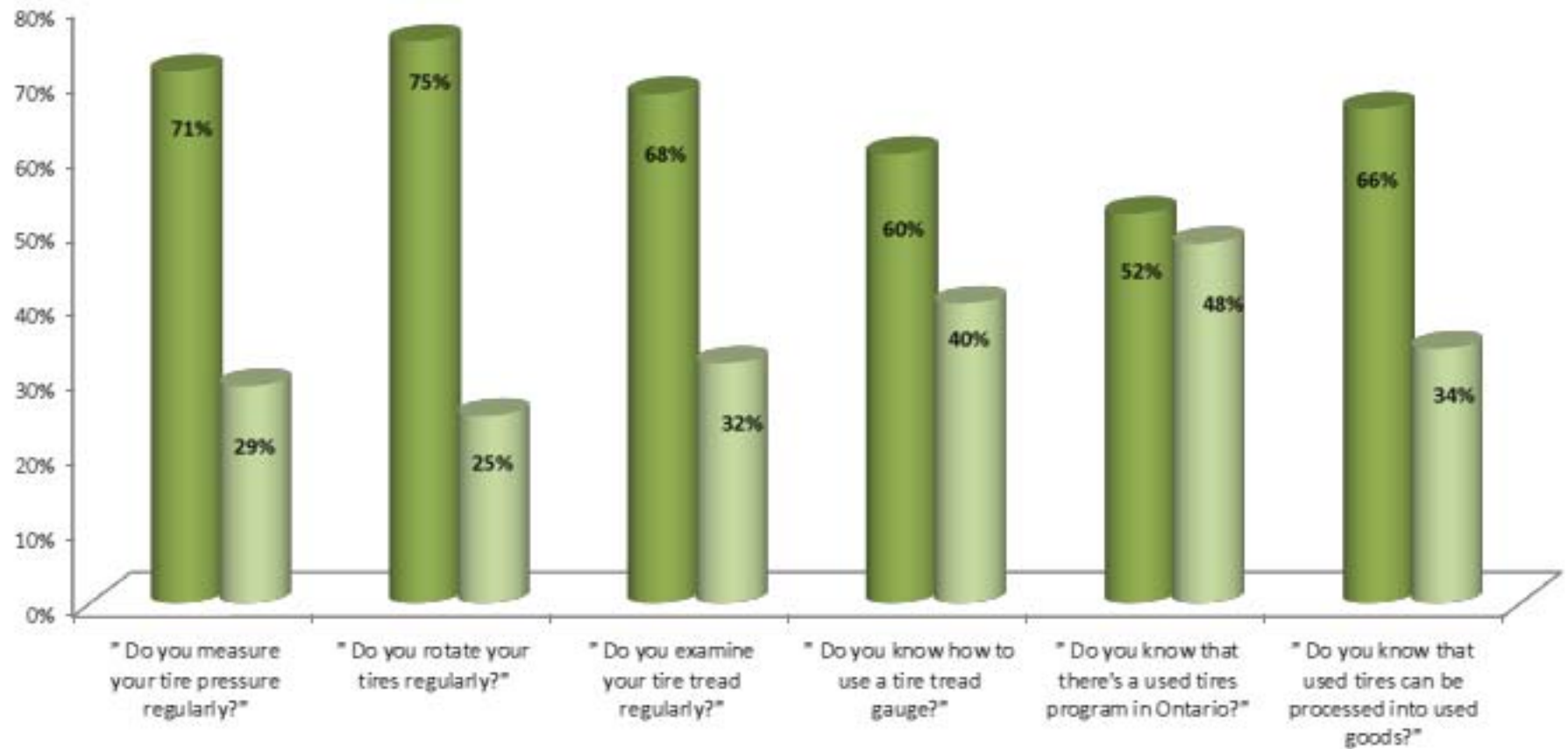
Number of tire pressure checks:

2,600



Driver Surveys Results

Dark Green = Yes / Light Green = No



Ensuring a Level Playing Field

Consistent with its objective to ensure a level industry playing field, OTS undertook a robust Year 1 audit program focusing on both Steward and service provider audits.

2009-2010 OTS Audit Program			
Program Participant	2009	2010	Audit Observations resulting in adjustments
Steward	15	4	1
Collector	0	164	24
Hauler	0	7	2
Processor	0	3	1
RPM	0	0	0

In addition to the audit program, OTS has continued to seek out companies who have not registered as Stewards but who OTS has reason to believe are Stewards, or who have been identified as likely Stewards by other industry stakeholders. Through 2010 OTS has contacted over 1,000 companies that OTS believes to have a high probability of being Stewards. Of this list, over 250 new Stewards were registered and have reported in accordance with the Rules for Stewards on tires supplied since program launch.

Additionally, OTS has undertaken targeted industry reviews based on market intelligence provided by the industry as well as our overall view of emerging market trends. For example, the introduction of the U.S. tariff on Chinese-produced tires caused concerns that this could drive an increase in “grey market” activity where organizations importing these tires may not report and remit on them as required by the Rules for Stewards. This market review resulted in OTS identifying multiple organizations that subsequently registered as Stewards and complied with the program requirements, including the payment of penalties and interest on the amounts owing.

To address situations where an organization has been non-responsive to repeated requests from OTS to either register as a Steward or declare itself not to be one, OTS has cultivated a relationship with the Investigations and Enforcement Branch (IEB) of the Ministry of the Environment. In 2010 OTS referred multiple organizations it believes to have a high probability of being a Steward to the IEB and is supporting their investigation and possible enforcement actions as needed.

OTS 2009 – 2010 Used Tires Diversion Summary

		Restated Target*		Actual		Actuals as a % of restated Targets	
		2009	2010	2010	2009	2010	2009
PLT Tonnes							
A	Supplied into Marketplace	32,332	96,995	100,458	36,420	104%	113%
B	Available for Collection (1)	32,332	96,995	100,458	36,420	104%	113%
C	Collected	32,332	96,995	93,695	30,065	97%	93%
D	Reused (2)	4,850	14,549	9,738	2,250	67%	46%
G	Actual Input to Recycling (5)	27,482	82,446	76,112	25,808	92%	94%
J	Processor Inventory Carryover from Previous Year (8)	0	0	10,389	0		
K	Material Available for Recycling (G+J)	27,482	82,446	86,501	25,808	105%	94%
L	Material losses & Disposal	2,748	8244.6056	3,217	1,192	39%	43%
M	Recycled (Rubber)			67,004	13,693		
N	Recycled (Steel)			4,796	534		
O	Recycled (Fibre)			35	0		
P	Total Tonnes Recycled [(J+K+L)	24,734	74,201	71,834	14,227	97%	58%
S	Total Tonnes Diverted	29,584	88,751	96,212	27,735	108%	94%
T	Reduction Rate	0%	0%	0%	0%		
U	Collection Rate (C/B)	100%	100%	93%	83%		
V	Reuse Rate (D/B)	15%	15%	10%	6%		
W	Recycling Rate	85%	85%	80%	73%		
X	Recycling Efficiency	90%	90%	100%	99%		
Y	Diversion Rate (S/B)	92%	92%	96%	76%		

		Restated Target*		Actual		Actuals as a % of restated Targets	
		2009	2010	2010	2009	2010	2009
MT Tonnes							
A	Supplied into Marketplace	7,955	23,864	33,186	8,888	139%	112%
B	Available for Collection (1)	7,955	23,864	33,186	8,888	139%	112%
C	Collected	7,955	23,864	36,982	9,817	155%	123%
D	Reused (2)	0	0	3,684	650		
G	Actual Input to Recycling (5)	7,955	23,864	29,358	7,704	123%	97%
J	Processor Inventory Carryover from Previous Year (8)	0	0	3,216	0		
K	Material Available for Recycling (G+J)	7,955	23,864	32,574	7,704	136%	97%
L	Material losses & Disposal	795	2386.39	246	238	10%	30%
M	Recycled (Rubber)			24,782	4,090		
N	Recycled (Steel)			1,819	160		
O	Recycled (Fibre)			3	0		
P	Total Tonnes Recycled [(J+K+L)	7,159	21,478	26,604	4,250	124%	59%
S	Total Tonnes Diverted	7,159	21,478	38,253	9,006	178%	126%
T	Reduction Rate	0					
U	Collection Rate (C/B)	100%	100%	111%	110%		
V	Reuse Rate (D/B)	0%	0%	11%	7%		
W	Recycling Rate	100%	100%	95%	92%		
X	Recycling Efficiency	90%	90%	106%	108%		
Y	Diversion Rate (S/B)	90%	90%	115%	101%		

		Restated Target*		Actual		Actuals as a % of restated Targets	
		2009	2010	2010	2009	2010	2009
OTR Tonnes							
A	Supplied into Marketplace	5240	15,720.00	14,323	5,079	91%	97%
B	Available for Collection (1)	5240	15,720.00	14,323	5,079	91%	97%
C	Collected	786	2,358	31,737	6,576	1346%	837%
D	Reused (2)	0	0	1,583	254		
G	Actual Input to Recycling (5)	786	2,358	15,901	2,698	674%	343%
J	Processor Inventory Carryover from Previous Year (8)	0	0	1,563	0		
K	Material Available for Recycling (G+J)	786	2,358	17,464	2,698	741%	343%
L	Material losses & Disposal	39.3	118	602	86	510%	219%
M	Recycled (Rubber)			15,948	1,007		
N	Recycled (Steel)			1,158	42		
O	Recycled (Fibre)			7	0		
P	Total Tonnes Recycled [(J+K+L)]	746.7	2,240	17,112	1,048	764%	140%
S	Total Tonnes Diverted	746.7	2,240	21,546	3,784	962%	507%
T	Reduction Rate	0%	0%	0%	0%		
U	Collection Rate (C/B)	15%	15%	222%	129%		
V	Reuse Rate (D/B)	0%	0%	11%	5%		
W	Recycling Rate	15%	15%	192%	90%		
X	Recycling Efficiency	95%	95%	114%	131%		
Y	Diversion Rate (S/B)	14%	14%	150%	74%		

*"Restated Target" is adjusted from the targets set-out in the approved Plan based on revised estimates of quantities of new tires "Supplied into Marketplace" and "Available for Collection" in the lead-up to program implementation.

Notes

- 1 Tonnes of tires available for collection is equivalent to Tonnes of Tires Supplied by Stewards
- 2 Reuse includes sales of used tires and retreading (as Reported by Collectors, Haulers and Processors)

- 3 Tonnes of tires available for future delivery to a registered Processor and subsequent recycling
- 4 Tonnes of Tires delivered to approved Processors (Based on the Estimated Weights in the Plan)
- 5 Tonnes of Tires delivered to approved Processors (based on actual weights as provided by Haulers scale receipts)
- 6 Discrepancy in Tonnes, between estimated and actual delivery weights to registered Processors
- 7 Factor by which the estimated and actual weights delivered to registered Processors differs
- 8 Processor inventory carried over from previous year (tonnes)
Tonnes of tires in inventory at Processor. Negative OTR tire tonnes in inventory due excess TDP
- 9 production reporting by out-of-province processors vs. inventory received

Includes % of tonnes of tires in inventory at (Processor and Hauler) time of reporting will be diverted. %

- 10 Recycled assumption is based on Jan 2010 - October reported recycling rate of Ontario Processors

Financial Statements of

**ONTARIO TIRE STEWARDSHIP/
SOCIÉTÉ DE GESTION DES
PNEUS USAGÉS DE L'ONTARIO**

Year ended December 31, 2010



KPMG LLP
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INDEPENDENT AUDITORS' REPORT

To the Members of Ontario Tire Stewardship/
Société de Gestion des Pneus Usagés de l'Ontario

We have audited the accompanying financial statements of Ontario Tire Stewardship/Société de Gestion des Pneus Usagés de l'Ontario, which comprise the statement of financial position as at December 31, 2010, the statements of income and changes in net assets and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' 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 our 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, we consider 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, the financial statements present fairly, in all material respects, the financial position of Ontario Tire Stewardship/Société de Gestion des Pneus Usagés de l'Ontario as at December 31, 2010, and its results of operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Chartered Accountants, Licensed Public Accountants

March 30, 2011
Toronto, Canada

ONTARIO TIRE STEWARDSHIP/ SOCIÉTÉ DE GESTION DES PNEUS USAGÉS DE L'ONTARIO

Statement of Financial Position

December 31, 2010, with comparative figures for 2009

	2010	2009
Assets		
Current assets:		
Cash	\$ 6,639,812	\$ 12,168,630
Short-term investment (note 2)	8,000,000	—
Trade accounts receivable	13,541,319	8,921,711
Prepaid expenses	48,030	—
	\$ 28,229,161	\$ 21,090,341


Liabilities and Net Assets

Current liabilities:		
Accounts payable and accrued liabilities	\$ 17,703,320	\$ 10,765,241
Due to Waste Diversion Ontario	—	584,135
Seed funding from members	21,000	378,359
Other	460,782	4,984,885
	18,185,102	16,712,620
Net assets	10,044,059	4,377,721
Commitments (note 4)		
	\$ 28,229,161	\$ 21,090,341

See accompanying notes to financial statements.

On behalf of the Board:

 Director

 Director

ONTARIO TIRE STEWARDSHIP/ SOCIÉTÉ DE GESTION DES PNEUS USAGÉS DE L'ONTARIO

Statement of Income and Changes in Net Assets

Year ended December 31, 2010, with comparative figures for 2009

	2010	2009
Revenue:		
Steward fees	\$ 70,227,356	\$ 24,587,051
Expenses:		
Operational costs:		
Research and development	160,253	—
Stockpile abatement cost	10,361	—
Manufacturing incentive	1,258,852	—
Transportation incentive	30,682,211	7,375,127
Processor incentive	12,811,806	2,978,785
Collection allowance	8,667,378	2,796,097
Promotion and communication	1,121,196	211,526
Accrued program costs - GST/HST (note 5)	4,759,794	650,408
	59,471,851	14,011,943
Administration:		
Program management	4,647,347	4,622,480
Pre-program launch costs	3,141	1,390,830
Professional fees	51,493	29,863
Office and general	387,186	154,214
	5,089,167	6,197,387
	64,561,018	20,209,330
Excess of revenue over expenses	5,666,338	4,377,721
Net assets, beginning of year	4,377,721	—
Net assets, end of year	\$ 10,044,059	\$ 4,377,721

See accompanying notes to financial statements.

ONTARIO TIRE STEWARDSHIP/ SOCIÉTÉ DE GESTION DES PNEUS USAGÉS DE L'ONTARIO

Statement of Cash Flows

Year ended December 31, 2010, with comparative figures for 2009

	2010	2009
Cash provided by (used in):		
Operating activities:		
Excess of revenue over expenses	\$ 5,666,338	\$ 4,377,721
Change in non-cash operating working capital:		
Trade accounts receivable	(4,619,608)	(8,809,711)
Prepaid expenses	(48,030)	—
Deferred program development costs	—	1,046,657
Accounts payable and accrued liabilities	6,938,079	10,694,693
Due to Waste Diversion Ontario	(584,135)	157,616
Due to Rubber Association of Canada	—	(66,118)
Seed funding from members	(357,359)	(284,000)
Other	(4,524,103)	4,984,885
	2,471,182	12,101,743
Investing activities:		
Short-term investment purchase	(8,000,000)	—
Increase (decrease) in cash	(5,528,818)	12,101,743
Cash, beginning of year	12,168,630	66,887
Cash, end of year	\$ 6,639,812	\$ 12,168,630

See accompanying notes to financial statements.

ONTARIO TIRE STEWARDSHIP/ SOCIÉTÉ DE GESTION DES PNEUS USAGÉS DE L'ONTARIO

Notes to Financial Statements

Year ended December 31, 2010

Ontario Tire Stewardship/Société de Gestion des Pneus Usagés de l'Ontario ("OTS" or the "Organization") has been incorporated for the purpose of becoming an industry funding organization created in accordance with Section 23(1) of the Waste Diversion Act (the "WDA"), which was passed in June 2002 by the Province of Ontario legislature. The WDA is designed to promote reduction, reuse and recycling of waste.

OTS was incorporated on September 10, 2003 as a corporation without share capital by letters patent under the laws of Ontario. It qualifies as a not-for-profit organization, as defined in the Income Tax Act (Canada) and, as such, is exempt from income taxes.

OTS aims to develop, promote, implement, operate and monitor a scrap tire diversion program for the Province of Ontario.

OTS works cooperatively with Waste Diversion Ontario to meet the requirements set out by the WDA, O. Reg. 84/03, and the Ontario Ministry of the Environment.

1. Significant accounting policies:

(a) Revenue recognition:

OTS follows the deferral method of accounting. Under this method, unrestricted revenue is recognized when received or receivable if the amount receivable can be reasonably estimated and collection is reasonably assured. Restricted revenue is recognized in the year in which the related expenses occur.

Stewards, defined as brand owners, original equipment manufacturers and first importers, must pay OTS a fee on every tire supplied into Ontario. This fee varies by tire type. OTS accrues the steward fee revenue and recognizes it as unrestricted revenue in the month in which it was generated as reported by the stewards.

Any revenue resulting from OTS' compliance and enforcement activities is recorded as revenue in the year in which it is received.

ONTARIO TIRE STEWARDSHIP/ SOCIÉTÉ DE GESTION DES PNEUS USAGÉS DE L'ONTARIO

Notes to Financial Statements (continued)

Year ended December 31, 2010

1. Significant accounting policies (continued):

(b) Incentives payable:

Incentives payable to collectors are earned by collectors when tires are picked up by haulers for storage and eventual transport to processors. Incentives payable to haulers are earned by haulers when the tires are delivered to processors. Incentives payable to processors are earned by processors only after the processing is complete and the product is sold for an eligible end use. Incentives payable to manufacturers (with manufacturing operations in Ontario) are earned when manufacturers provide OTS with proof of sale of products using recycled rubber from eligible Ontario tires.

Incentives are paid after OTS receives reports from the stakeholders and is satisfied with the supporting documents provided. OTS accrues the incentives and recognizes them as expense in the period in which the incentives are earned by the stakeholders.

Incentives payable at year end are included in accounts payable and accrued liabilities.

(c) Use of estimates:

The preparation of financial statements 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 income and expenses during the year. Estimates are used in reporting allowance for doubtful accounts and accrued liabilities. By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates in future years could be significant.

ONTARIO TIRE STEWARDSHIP/ SOCIÉTÉ DE GESTION DES PNEUS USAGÉS DE L'ONTARIO

Notes to Financial Statements (continued)

Year ended December 31, 2010

2. Short-term investment:

	Fair value	Cost
Guaranteed investment certificate	\$ 8,000,000	\$ 8,000,000

The guaranteed investment certificate bears a yield to maturity at 1.10% with a maturity date of December 2011.

Investment risk management:

Risk management relates to understanding and active management of risk associated with all areas of the business and the associated operating environment. Investments are primarily exposed to interest rate risk and market risk.

(a) Interest rate risk:

Interest rate risk arises from the possibility that changes in interest rates will affect the value of fixed income securities held by the Organization. The Organization manages this risk by holding primarily debt issued by the financial institutions.

(b) Market risk:

Market risk arises as a result of trading in fixed income securities. Fluctuations in the market expose the Organization to a risk of loss. The Organization mitigates this risk by limiting the type of investments to fixed income securities and short-term investments according to the Organization's Investment Policy Statement.

ONTARIO TIRE STEWARDSHIP/ SOCIÉTÉ DE GESTION DES PNEUS USAGÉS DE L'ONTARIO

Notes to Financial Statements (continued)

Year ended December 31, 2010

3. Financial instruments:

OTS' financial instruments consist of cash, short-term investment, trade accounts receivable and accounts payable and accrued liabilities and other current liabilities.

OTS' financial assets that are exposed to credit risk consist primarily of cash, short-term investment and trade accounts receivable. Cash consists of deposits with major Canadian banks. Short-term investment consists of a guaranteed investment certificate. The Organization, in its normal course of business, is exposed to credit risk from its members. The Organization is exposed to credit loss in the event of non-performance by counterparties to the financial instruments but does not anticipate non-performance by these counterparties.

The carrying amounts of cash, short-term investment, trade accounts receivable, accounts payable and accrued liabilities and other current liabilities approximate their fair values because of the short-term maturities of these financial instruments.

4. Commitments:

OTS has future minimum annual commitments under long-term contracts for premises, information technology infrastructure and other services as follows:

2011	\$ 406,686
2012	167,304
	<hr/>
	\$ 573,990

OTS has a commitment to IBM Global Financing ("IBM") under two contracts ending December 31, 2011 to pay a minimum of \$3,243,012 by the expiration of the contracts. These commitments to IBM are in exchange for IBM performing back office support and program administration, including systems development and maintenance.

ONTARIO TIRE STEWARDSHIP/ SOCIÉTÉ DE GESTION DES PNEUS USAGÉS DE L'ONTARIO

Notes to Financial Statements (continued)

Year ended December 31, 2010

5. Accrued program costs - GST/HST:

This item represents a contingent expense recognized by OTS. OTS has submitted a Ruling request to Canada Revenue Agency ("CRA") requesting clarity on whether or not GST and HST should apply to incentive payments made to program participants. Should a favourable Ruling be issued by CRA, this contingent expense would not be required.