

TIRE STEWARDSHIP B.C. ASSOCIATION

Financial Statements

For the Year Ended December 31, 2022



Baker Tilly Victoria Ltd
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INDEPENDENT AUDITORS' REPORT

To the Members of Tire Stewardship B.C. Association

Report on the Financial Statements

Opinion

We have audited the financial statements of Tire Stewardship B.C. Association (the "Association"), which comprise the statement of financial position as at December 31, 2022 and the statements of operations, changes in net assets, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly in all material respects, the financial position of the Association as at December 31, 2022, and results of its 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 Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Association 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.



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INDEPENDENT AUDITORS' REPORT (continued)

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

Management is responsible for the preparation and fair presentation of the 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 Association'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 Association or to cease operations, or has no realistic alternative but to do so.

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

Auditors' 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 auditors' 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.



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INDEPENDENT AUDITORS' REPORT (continued)

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 Association'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 Association's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' 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 auditors' report. However, future events or conditions may cause the Association to cease to continue as a going concern.



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INDEPENDENT AUDITORS' REPORT (continued)

- 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.

Report on Other Legal and Regulatory Requirements

As required by the British Columbia Societies Act, we report that, in our opinion, these principles have been applied on a basis consistent with that of the preceding year.

Baker Tilly Victoria Ltd.

CHARTERED PROFESSIONAL ACCOUNTANTS

Victoria, B.C.

April 18th 2023

**Tire Stewardship B.C. Association
Statement of Financial Position**

As at December 31	2022	2021
	\$	\$
ASSETS		
Current Assets		
Cash	2,919,651	2,757,223
Accounts receivable	2,800,029	2,495,897
	5,719,680	5,253,120
Investments (note 2)	10,111,357	12,867,786
Intangible Asset (note 3)	227,281	229,561
	16,058,318	18,350,467
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities (note 4)	3,907,660	2,917,797
NET ASSETS (NOTE 5)		
Unrestricted	-	-
Restricted		
Program Reserve	12,150,658	15,432,670
	16,058,318	18,350,467

COMMITMENTS (NOTE 6)

Signed by Directors on behalf of the Board:

Director

Director

**Tire Stewardship B.C. Association
Statement of Operations**

For the Year Ended December 31	2022	2021
	\$	\$
REVENUE		
Advance Disposal Fees	25,253,901	24,215,057
Investment Income (note 2) -		
From Cash and Cash Equivalents	21,119	5,941
From Fixed Income Securities and Equities	(969,380)	674,634
Less Investment Management Fees	(61,787)	(63,134)
Total Revenue	24,243,853	24,832,498
EXPENSES		
Program Incentives	25,435,653	22,825,147
Administration		
Program Management	949,523	970,473
Communications and Education	467,786	357,364
Community Grant Program	185,825	188,975
Professional Fees	286,718	193,159
Board Expenses and Travel	200,360	179,194
Total Expenses	27,525,865	24,714,312
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSES	(3,282,012)	118,186

**Tire Stewardship B.C. Association
Statement of Changes in Net Assets**

For the Year Ended December 31

	Unrestricted	Restricted	2022	2021
	\$	Program Reserve \$	Total \$	Total \$
Net Assets - Beginning of year	-	15,432,670	15,432,670	15,314,484
Excess (Deficiency) of Revenue over Expenses	(3,282,012)	-	(3,282,012)	118,186
Transfers (note 5)	3,282,012	(3,282,012)	-	-
NET ASSETS - END OF YEAR (NOTE 5)	-	12,150,658	12,150,658	15,432,670

Tire Stewardship B.C. Association
Statement of Cash Flows

For the Year Ended December 31	2022	2021
	\$	\$
CASH PROVIDED FROM (USED FOR):		
OPERATING ACTIVITIES		
Excess (deficiency) of revenue over expenses	(3,282,012)	118,186
Items not affecting cash -		
Amortization of intangible asset	106,794	144,122
Realized loss (gain) on sale of investments	(50,506)	(115,650)
Unrealized loss (gain) on investments	1,396,075	(142,158)
Changes in non-cash working capital balances related to operations -		
Accounts receivable	(304,132)	(216,716)
Accounts payable and accrued liabilities	989,863	592,685
	(1,143,917)	380,469
INVESTING ACTIVITIES		
Proceeds from disposition of investments	2,563,611	2,896,995
Purchase of investments	(1,152,751)	(3,746,101)
Purchase of intangible asset	(104,514)	(165,000)
	1,306,345	(1,014,106)
INCREASE (DECREASE) IN NET CASH	162,428	(633,637)
Net Cash - Beginning of year	2,757,223	3,390,860
NET CASH - END OF YEAR (NOTE 1)	2,919,651	2,757,223

Tire Stewardship B.C. Association
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2022

Tire Stewardship B.C. Association (“TSBC”) is a Stewardship Agency registered in British Columbia and incorporated under the British Columbia Society Act as a not-for-profit organization on August 25, 2003. On October 13, 2017, TSBC transitioned to the new British Columbia Societies Act. TSBC is exempt from income taxes pursuant to Section 149(1)(l) of the Income Tax Act, Canada. On January 1, 2007, TSBC assumed responsibility for the Ministry of Environment (“Ministry”) FIRST Program and entered into an agreement to manage the industry stewardship program for scrap tires in British Columbia in accordance with a Ministry-approved Stewardship Plan. The 2018-2021 Stewardship Plan was approved by the Ministry on December 7, 2018. The 2022-2026 Plan was submitted to the Ministry on August 26, 2021.

The B.C. Recycling Regulation (449/2004) includes the requirement that all producers, as defined in the regulation and referred to in these notes as “tire retailers”, prepare or be part of an approved stewardship plan. Presently, TSBC has the only approved tire stewardship program in the province and accordingly all tire retailers in B.C. must be registered.

1. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with Canadian accounting standards for not-for-profit organizations, applied within the framework of the significant accounting policies summarized below:

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 and the disclosure of contingencies at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. As discussed in note 6, the incentive payments to the processors are payable only after the processing is complete and the product is sold. An inventory of processed materials not yet sold, and unprocessed scrap tires exists at the processors’ plants. This inventory is estimated based on reports from the processors and actual inventories may vary significantly from this estimate. These estimates are reviewed periodically by management.

Revenue Recognition

TSBC follows the deferral method of accounting. Under this method, restricted revenue is recognized in the year in which the related expenses are incurred. Unrestricted revenue is recognized when received or receivable if the amount received can be reasonably estimated and collection is reasonably assured. Investment income is recognized when earned.

TSBC charges an advance disposal fee to tire retailers on the sale of new tires. This fee is variable based on the type of tires sold. Advance disposal fee revenues are collected by the tire retailers at the point of sale and reported to TSBC in the following month. TSBC accrues the advance disposal fee revenues and recognizes them as unrestricted revenues in the month in which they were generated as reported by the tire retailers.

Cash and Cash Equivalents

The cash presented on the statement of financial position consists of cash on hand and cash on deposit. The cash and cash equivalents component of investments consists of cash on deposit and investments in money market instruments.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible Asset

Intangible asset consists of software and is accounted for at cost. Amortization is based on its useful life using the straight-line method. The amortization method and the estimate of the useful life of the intangibles are reviewed annually. Intangibles are tested for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. Impairment of an intangible asset is recognized in an amount equal to the difference between the carrying value and the fair value of the related intangible asset. TSBC utilizes a direct valuation approach in determining the fair value of intangible assets.

Research and development

Research costs are expensed in the period incurred. Development costs are expensed in the period incurred unless, in the opinion of management, the deferral criteria set forth by the CPA Canada Handbook – Accounting are satisfied in all material respects, in which case development expenditures are capitalized and amortized over the estimated life of the related products.

Intangible Asset impairment

The carrying value of the intangible asset may be written down to recognize a reduction in its recoverable amount to its fair value. The impairment is measured by comparing the carrying value of the intangible asset to the fair value, based on the present value of undiscounted future cash flows expected to be generated from the intangible asset. An impairment charge is recorded in net income. Impairment charges are not reversed if there is a subsequent increase in its fair value.

Incentives Payable

Incentives payable to processors are due only after the processing is complete and the product is sold for an eligible end use (or in the case of whole tires used for tire derived fuel, when consumed by the facility). Incentives payable to manufacturers are due on receipt of crumb rubber from the processor or on sale of the final manufactured product depending on the manufacturers' processes. Incentives payable as of the end of the fiscal year are included in accounts payable and accrued liabilities.

Financial Instruments

Measurement of financial instruments

TSBC initially measures its financial assets and financial liabilities at fair value, except for certain related party transactions that are measured at the carrying amount or exchange amount, as appropriate.

TSBC subsequently measures all its financial assets and financial liabilities at cost or amortized cost, except for investments that are quoted in an active market, which are measured at fair value. Changes in fair value of these financial instruments are recognized in excess (deficiency) of revenue over expenses.

Financial assets measured at amortized cost on a straight-line basis include cash and cash equivalents and accounts receivable.

Financial liabilities measured at amortized cost on a straight-line basis include accounts payable and accrued liabilities.

Financial assets measured at fair value include quoted fixed income securities and equities.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment

Financial assets measured at cost are tested for impairment when there are indicators of impairment. The amount of the write-down is recognized in excess (deficiency) of revenues over expenses. The previously recognized impairment loss may be reversed to the extent of the improvement, directly or by adjusting the allowance account, provided it is no greater than the amount that would have been reported at the date of the reversal had the impairment not been recognized previously. The amount of the reversal is recognized in excess (deficiency) of revenues over expenses.

Transaction costs

TSBC's transaction costs related to financial instruments that will be subsequently measured at fair value are recognized in excess (deficiency) of revenues over expenses in the period incurred. The carrying amount of the financial instruments that will not be subsequently measured at fair value is adjusted for transaction costs directly attributable to the origination, issuance, or assumption of these instruments.

2. INVESTMENTS

	2022	2021
	\$	\$
Cash and cash equivalents, at amortized cost	16,296	190,060
Fixed income securities, measured at fair value	8,022,782	9,543,315
Equities, measured at fair value	2,072,279	3,134,411
Investments	10,111,357	12,867,786

Investment income is comprised of interest income of \$51,267 (2021 - \$39,059), dividends of \$66,192 (2021 - \$123,820), foreign nonbusiness income \$114,984 (2021 - \$96,566), other income \$164,865 (2021 - \$163,322), realized gain of \$50,506 (2021 - \$115,650), unrealized loss of \$1,396,075 (2021 - unrealized gain of \$142,158), less investment management fees of \$61,787 (2021 - \$63,134).

3. INTANGIBLE ASSET

	2022	2021
	\$	\$
Software (net of amortization)	227,281	229,561

The software is being amortized on a straight-line basis over three years. The amount of amortization included in the statement of operations for this intangible asset was \$106,794 (2021 - \$144,122).

4. GOVERNMENT REMITTANCES

Accounts payable and accrued liabilities include Goods and Services Tax payable of \$162,171 (2021 - \$123,818).

5. NET ASSETS

TSBC's board of directors approved a transfer from the Program Reserve to the Unrestricted Reserve the in the amount of \$3,282,012.

5. NET ASSETS (continued)

Unrestricted Net Assets:

- Funds the operational expenses of TSBC, are not externally restricted and are available for general use.

Program Reserve:

- Ensures that funds are available to meet the potential incentives owing to processors for the whole tires and unsold product from previously delivered tires. TSBC has entered into agreements with processors to provide incentives to process and sell their products. The incentive is paid when the product is sold.
- Assists, in the event of a cessation of the Tire Stewardship Program, or the wind up of the Society, or other contingencies with the potential financial consequences that may arise if such events were to occur.
- Ensures funds are available to fund research and development activities and other initiatives needed to sustain a tire-recycling program in the province of British Columbia.

6. COMMITMENTS

As at December 31, 2022, whole tires and unsold product at registered processor facilities were estimated at 805,649 passenger tire equivalents / 8,056 tonnes (2021 – 641,702 passenger tire equivalents / 6,417 tonnes). The incentive payments to processors could amount to a future liability of up to \$2,199,505 (2021 \$1,900,497).

TSBC has also entered into an operating lease for its premises. Expected future minimum lease payments for the next 4 years are as follows:

	\$
Year ending December 31, 2023	69,743
December 31, 2024	71,628
December 31, 2025	71,628
December 31, 2026	23,876

7. FINANCIAL INSTRUMENTS

TSBC's financial instruments consist of cash and cash equivalents, accounts receivable, investments (note 2), and accounts payable and accrued liabilities.

Risks and Concentrations

TSBC is exposed to various risks through its financial instruments, without being exposed to concentrations of risk. The following analysis provides a measure of the TSBC's risk exposure as at December 31, 2022.

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Credit risk arises from the potential that registered tire retailers who are required to remit advance disposal fees on their tire sales will fail to perform their respective obligation to remit these funds to TSBC. TSBC is exposed to credit risk from these registrants. However, TSBC has many registered tire retailers, which minimizes the concentration of credit risk.

Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. Unless otherwise noted, it is management's opinion that, under normal circumstances, TSBC is not exposed to significant liquidity risk arising from these financial instruments.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

7. FINANCIAL INSTRUMENTS (continued)

Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Unless otherwise noted it is management's opinion that, under normal circumstances, TSBC is not exposed to significant currency risk arising from these financial instruments.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. TSBC is exposed to interest rate risk on its fixed and floating interest rate financial instruments. Fixed-interest instruments subject TSBC to a fair value risk since fair value fluctuates inversely to changes in market interest rates. Floating rate instruments subject TSBC to related cash flow risk. Unless otherwise noted it is management's opinion that, under normal circumstances, TSBC is not exposed to significant interest rate risk arising from these financial instruments.

Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. TSBC is exposed to other price risk through its investments in fixed income securities and equities for which the values fluctuate with the quoted market price and interest rates.

8. SUBSEQUENT EVENTS

Since December 31, 2022, the COVID-19 outbreak has continued to result in governments worldwide enacting emergency measures to combat the spread of the virus which include implementation of travel bans, quarantine periods, and social distancing. These measures have caused material disruption to organizations globally resulting in an economic slowdown. Global equity markets continue to experience significant volatility and weakness. Governments and central banks have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions. Management is actively monitoring the impact on the Association of the above and an estimate on the financial position, and operations of the Association cannot be made at this time.