PRODUCT CARE ASSOCIATION

FINANCIAL STATEMENTS

31 DECEMBER 2014

ROLFE, BENSON LLP
CHARTERED ACCOUNTANTS

PRODUCT CARE ASSOCIATION
Financial Statements
For the year ended 31 December 2014

Contents

ROLFE, BENSON LLP
CHARTERED ACCOUNTANTS

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INDEPENDENT AUDITORS' REPORT

To the Members,
Product Care Association

Report on the Financial Statements

We have audited the accompanying financial statements of Product Care Association, which comprise the statement of financial position as at 31 December 2014, and the statements of 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.

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 the auditors' 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 auditors consider internal control relevant to the Association'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 Association'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.

INDEPENDENT AUDITORS' REPORT - Continued

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 Product Care Association as at 31 December 2014, 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.

Rolfe, Benson LLP

CHARTERED ACCOUNTANTS

Vancouver, Canada
21 April 2015

PRODUCT CARE ASSOCIATION
Statement of Financial Position
31 December 2014

	2014	2013 (Restated - Note 9)
Assets		
Current		
Cash and cash equivalents	**$ 15,452,516**	$ 7,428,235
Accounts receivable	**4,588,098**	5,652,259
Prepaid expenses and deposits	**132,671**	127,381
	20,173,285	13,207,875
Forgivable loans (Notes 3 and 7)	**37,000**	-
Reserve - at market value (Note 4)	**11,845,555**	10,860,348
Capital assets (Note 5)	**6,096,307**	6,119,948
Intangible assets (Note 6)	**385,202**	112,669
	$ 38,537,349	$ 30,300,840
Liability		
Current		
Accounts payable and accrued liabilities	**$ 2,657,547**	$ 2,612,283
Commitments (Note 7)		
Members' Equity		
Unrestricted	**17,552,738**	10,595,592
Invested in capital and intangible assets	**6,481,509**	6,232,617
Reserve - internally restricted (Note 4)	**11,845,555**	10,860,348
	35,879,802	27,688,557
	$ 38,537,349	$ 30,300,840

APPROVED BY THE DIRECTORS:

______________________ Director ______________________ Director

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

ROLFE, BENSON LLP
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PRODUCT CARE ASSOCIATION
Statement of Net Assets
For the year ended 31 December 2014

	Unrestricted	**Invested in Capital and Intangible Assets**	**Internally Restricted Reserve**	**Total 2014**	Total 2013 (Restated - Note 9)
Net assets - beginning of year as previously reported	$ 11,117,138	$ 6,232,617	$ 10,860,348	**$ 28,210,103**	$ 15,478,872
Prior period adjustment (Note 9)	(521,546)	-	-	**(521,546)**	(68,959)
Net assets - beginning of year as restated	10,595,592	6,232,617	10,860,348	**27,688,557**	15,409,913
Excess of revenues over expenses for the year	8,191,245	-	-	**8,191,245**	12,278,644
Transfer to reserve	(985,207)	-	985,207	**-**	-
Transfer to invested in capital and intangible assets, net	(248,892)	248,892	-	**-**	-
Net assets - end of year	**$ 17,552,738**	**$ 6,481,509**	**$ 11,845,555**	**$ 35,879,802**	$ 27,688,557

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

ROLFE, BENSON LLP
CHARTERED ACCOUNTANTS

PRODUCT CARE ASSOCIATION
Statement of Operations
For the year ended 31 December 2014

	2014	2013 (Restated - Note 9)
Revenues	**$ 26,785,134**	$ 28,340,070
Operating expenses		
Collection, disposal, transportation and event advertising	**16,354,566**	15,247,485
Gross margin	**10,430,568**	13,092,585
Administrative expenses		
Technical, professional, management and communication	**2,271,752**	1,798,608
Office, rent and travel	**820,211**	482,806
Association and depot start up costs	**274,066**	218,865
	3,366,029	2,500,279
Expense recoveries	**6,079**	7,128
	3,359,950	2,493,151
Excess of revenues over expenses from operations	**7,070,618**	10,599,434
Other income (expense)		
Investment income	**1,119,338**	438,242
Interest income	**135,420**	55,912
Gain on sale of marketable securities	**3,405**	3,462
Unrealized gain (loss) on investments	**(137,536)**	1,181,594
	1,120,627	1,679,210
Excess of revenues over expenses for the year	**$ 8,191,245**	$ 12,278,644

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

PRODUCT CARE ASSOCIATION
Statement of Cash Flows
For the year ended 31 December 2014

	2014	2013 (Restated - Note 9)
Cash provided by (used in):		
Operating activities		
Excess of revenues over expenses for the year	**$ 8,191,245**	$ 12,278,644
Items not involving cash		
Gain on sale of marketable securities	**(3,405)**	(3,462)
Market value adjustment to reserve	**137,536**	(1,181,594)
Amortization	**221,145**	218,625
	8,546,521	11,312,213
Changes in non-cash working capital balances	**1,104,135**	(1,374,895)
	9,650,656	9,937,318
Investing activities		
Transfer to reserve	**(1,119,338)**	(438,242)
Purchase of capital assets	**(197,504)**	(5,950,550)
Purchase of intangible assets	**(272,533)**	(62,669)
	(1,589,375)	(6,451,461)
Financing activity		
Issuance of forgivable loans	**(37,000)**	-
Net increase in cash and cash equivalents	**8,024,281**	3,485,857
Cash and cash equivalents - beginning of year	**7,428,235**	3,942,378
Cash and cash equivalents - end of year	**$ 15,452,516**	$ 7,428,235
Cash and cash equivalents consists of:		
Cash	**$ 3,900,218**	$ 1,616,499
Term deposits and savings accounts	**11,552,298**	5,811,736
	$ 15,452,516	$ 7,428,235

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

ROLFE, BENSON LLP
CHARTERED ACCOUNTANTS

1. Incorporation of Product Care Association

On 7 May 2001, Letters Patent were obtained for the creation of Product Care Association (the "Association"). The new entity was the result of the amalgamation of PPC Paint and Product Care Association with Product Care Association on 1 July 2001, and is incorporated under the Canada Corporations Act. The Association is a not-for-profit organization and as such, the Association is not subject to income taxes.

The Association was created to collect and dispose of paint, aerosols, solvents, pesticides, gas and other household waste in an environmentally safe manner as mandated by various provinces.

2. Summary of significant accounting policies

These financial statements are prepared in accordance with Canadian accounting standards for not-for-profit organizations. The significant policies are detailed as follows:

(a) Financial instruments

(i) Measurement of financial instruments

The Association initially measures its financial assets and liabilities at fair value and subsequently measures all of its financial assets and financial liabilities at amortized cost, except for investments in equity instruments that are quoted in an active market and investments in other securities, which are measured at fair value. Changes in fair value are recognized in the statement of operations.

Financial assets measured at amortized cost include cash and cash equivalents, accounts receivable and forgivable loans.

Financial liabilities measured at amortized cost include accounts payable and accrued liabilities.

The Association’s financial assets measured at fair value include the reserve which is comprised of various investments in mutual funds.

(ii) 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 the statement of operations. 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 the statement of operations.

2. Summary of significant accounting policies - Continued

(a) Financial instruments - Continued

(iii) Transaction costs

The Association recognizes its transaction costs in the statement of operations in the period incurred. However, financial instruments that will not be subsequently measured at fair value are adjusted by the transaction costs that are directly attributable to their origination, issuance or assumption.

(b) Cash and cash equivalents

The Association's policy is to disclose bank balances under cash and cash equivalents, including bank overdrafts with balances that fluctuate frequently from being positive to overdrawn and term deposits with a maturity period of three months or less from the date of acquisition. Term deposits that the Association cannot use for current transactions because they are pledged as security are also excluded from cash and cash equivalents.

(c) Capital assets

Capital assets are recorded at cost. The Association provides for amortization using the straight-line method at rates designed to amortize the cost of the capital assets over their estimated useful lives. The annual amortization rates are as follows:

Storage depots	5 years
Office equipment	2 years
Depot equipment	2, 3 and 5 years
Leasehold improvements	5 years

(d) Intangible assets

Intangible assets are recorded at cost. Intangible assets with a finite useful life are amortized over their useful life to the Association. Intangible assets with an indefinite life are not amortized and are assessed annually for impairment.

(e) Revenue recognition

Eco fees are received from registered members within the provinces which participate in the Association's programs. The Association recognizes these fees as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured. Eco-fee revenues are recognized as individual stewards' report and remit them as required by applicable provincial environmental legislation.

Investment income includes interest income, and realized and unrealized investment gains and losses. Unrealized gains and losses are reported in the statement of operations. Unrestricted investment income is recognized as revenue when earned.

2. Summary of significant accounting policies - Continued

(f) Use of estimates

The preparation of financial statements in conformity 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 disclosure of contingent assets and liabilities at the balance sheet date and the reported amounts of revenues and expenses during the year. Actual results could differ from those estimates.

(g) Foreign exchange

Monetary assets and liabilities of the Association which are denominated in foreign currencies are translated at year end exchange rates. Other assets and liabilities are translated at rates in effect at the date the assets were acquired and liabilities incurred. Revenue and expenses are translated at the rates of exchange in effect at their transaction dates. The resulting gains or losses are included in operations.

3. Forgivable loans

During the year, the Association has advanced $37,000 of funds in the form of forgivable loans to various organizations for the development of collection facilities for specific programs (Note 7). Providing that the collection facility commences operations and meets the various criteria in the collection site agreement, these funds and any related interest are forgiven at the rate of 10% the original amount of the loan on each anniversary of the commencement of the collection site's operations. If the development of the collection facility is not completed, or the collection facility does not commence operations, the amounts advanced are repayable to the Association plus interest at 8% per annum.

4. Reserve

The reserve fund was established to (1) respond to environmental impairment liability exposures and director and officers liability exposures up to predetermined levels in conjunction with the overall insurance program and (2) to fund the ongoing operations, future program expenses, potential penalties and various other projects of the Association from time to time. The amount is internally restricted and expenditures from the reserve are at the discretion of the Board of Directors. Transfers to the reserve fund are made upon resolutions passed by the Board of Directors. During the year the transfers to the fund were limited to the income earned on the investments in the reserve fund.

4. Reserve - Continued

The assets in the reserve fund consist of cash and investments in fixed income and equity securities and are independently managed. All income earned on these investments are initially reported in the unrestricted fund and then transferred to the reserve fund. During the year, $985,207 was transferred from the unrestricted fund to the reserve fund, which consisted of an unrealized loss of $137,536 at 31 December 2014 and realized investment income of $1,122,743. In the prior year, $1,623,298 was transferred from the reserve fund to the unrestricted fund, which consisted of an unrealized gain of $1,181,594 at 31 December 2013 and realized investment income of $441,704.

5. Capital assets

	Cost	Accumulated Amortization	2014 Net	2013 Net
Land	**$ 3,423,983**	**$ -**	**$ 3,423,983**	$ 3,388,983
Building	**2,393,458**	**-**	**2,393,458**	2,391,658
Depot equipment	**1,591,490**	**1,321,567**	**269,923**	319,421
Office equipment	**120,481**	**117,922**	**2,559**	10,949
Leasehold improvements	**496,516**	**490,132**	**6,384**	8,937
	$ 8,025,928	**$ 1,929,621**	**$ 6,096,307**	$ 6,119,948

During the prior year, the Association purchased land and building and is in the process of preparing the building for use. As the building is not in use as at 31 December 2014, no amortization has been taken on the building.

Legal ownership of the building resides with a bare trustee corporation. The Association has beneficial ownership of the building.

6. Intangible assets

	Cost	Accumulated Amortization	2014 Net	2013 Net
ERP Software	**$ 335,202**	**$ -**	**$ 335,202**	$ 62,669
Quebec RecycFluo Program	**50,000**	**-**	**50,000**	50,000
	$ 385,202	**$ -**	**$ 385,202**	$ 112,669

6. Intangible assets - Continued

During the fiscal year 2013, the Association began implementing a new ERP software system. The intangible assets acquired consist of the costs associated with purchasing, designing and implementing this system. As the full ERP system is not in use as at 31 December 2014, no amortization has been taken on the ERP software.

During the fiscal year 2012, the Association acquired certain intangible assets related to commencement of the Quebec RecycFluo Program for $50,000. The intangible assets acquired consist of the program trademark and the list of program members that was established by the previous program manager. Management of the Association is of the opinion that no impairment allowance is required for the 2014 fiscal year.

7. Commitments

The Association has a lease agreement for a 60 month lease term on the Surrey office and building facility which expires on 31 January 2016. The lease includes a clause that the Association can terminate the lease with six months notice.

The Association also has various lease agreements for the Vancouver office building which expires on 31 January 2015 and 31 January 2018. The Association has the option to renew these leases for an additional 36 months.

The annual lease payments for the Association's premises and other operating leases are as follows:

2015	$ 206,149
2016	77,595
2017	41,264
2018	3,443
	$ 328,451

The Association has committed up to $800,000 to be used for the development of collection facilities for certain programs. These funds are to be disbursed at the discretion of the Association based on an application process from qualifying organizations. As of 31 December 2014, $37,000 funds have been disbursed relating to this commitment (Note 3).

Additionally, at year end the Association had unprocessed product on hand with an estimated cost to process, transport and recycle of $685,767 which will be incurred during 2015.

8. Financial instruments

The Association is exposed to various risks through its financial instruments. The following analysis provides a measure of the Association's risk exposure and concentrations at the statement of financial position date, 31 December 2014.

(a) 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. The Association's main credit risks relate to its cash and cash equivalents and accounts receivable. Cash is in place with major financial institutions. Concentrations of credit risk with respect to accounts receivable are limited due to the large number of customers. The Association has evaluation and monitoring processes in place and writes off accounts when they are determined to be uncollectible.

(b) Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Association is not exposed to this risk due to its strong working capital position.

(c) 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.

(d) 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. The Association has investments denominated in U.S. dollars included in the reserve (Note 4). As such, these investments are exposed to foreign exchange fluctuations.

(e) 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. The Association is exposed to interest rate risk on its fixed and floating interest rate financial instruments. Fixed-rate instruments subject the Association to a fair value risk while the floating-rate instruments subject it to a cash flow risk.

8. Financial instruments - Continued

(f) 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. The Association is exposed to other price risk through its investments held in the Reserve.

9. Prior period adjustment

During the year, the Association determined that a member had over-remitted their eco-fees by $68,959 for the 2012 fiscal year and by $452,587 for the 2013 fiscal year. The over-remittance was caused by an error in the member's reporting system. This error has been recorded as a prior period adjustment with a restatement of the prior years' financial statements. As a result, net assets was decreased and accounts payable and accrued liabilities was increased by $68,959 as at 1 January 2013. Additionally, excess of revenues over expenses for the 2013 fiscal year was decreased by $452,587, and net assets was decreased as at 1 January 2013 and accounts payable and accrued liabilities were increased as at 31 December 2013 by $521,546.