

Call2Recycle Canada, Inc.
Financial Statements
For the Year Ended December 31, 2017

Draft - Subject to Change

Call2Recycle Canada, Inc.
Financial Statements
For the Year Ended December 31, 2017

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Independent Auditor's Report

**To the board of directors of
Call2Recycle Canada, Inc.**

We have audited the accompanying financial statements of Call2Recycle Canada, Inc., which comprise the statement of financial position as at December 31, 2017, 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.

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, the financial statements present fairly, in all material respects, the financial position of Call2Recycle Canada, Inc. as at December 31, 2017, and the results of its operations, changes in net assets and cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

Chartered Professional Accountants

Brandon, Manitoba

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Call2Recycle Canada, Inc.
Statement of Financial Position

December 31

2017

Assets

Cash (Note 3)	\$ 1,730,879
Accounts receivable	5,521,576
Marketable securities	8,575,394
Other assets	<u>97,581</u>
	<u>\$15,925,430</u>

Liabilities and Net Assets

Accounts payable and accrued expenses (Notes 6, 9)	<u>\$ 2,203,199</u>
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Unrestricted Net Assets

Undesignated	5,389,162
Board Designated (Note 8)	<u>8,333,069</u>
	<u>13,722,231</u>
	<u>\$15,925,430</u>

Call2Recycle Canada, Inc.
Statement of Changes in Net Assets

For the year ended December 31	Undesignated	Board Designated	2017 Total
Balance, beginning of the year	\$ -	\$ -	\$ -
Excess of revenues over expenses	1,667,936	7,338,948	9,006,884
Capital contribution (Note 2)	3,721,226	994,121	4,715,347
Balance, end of the year	\$ 5,389,162	\$ 8,333,069	\$ 13,722,231

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

Call2Recycle Canada, Inc.
Statement of Operations

For the year ended December 31

2017

Revenues

Steward fees	\$ 19,861,583
Investment income	75,394
Other	326,490
	<u>20,263,467</u>

Expenses

Material management and processing	6,750,412
Marketing and communications	781,130
Other (Salary, Professional, Administrative)	<u>3,725,041</u>
	<u>11,256,583</u>

Excess of revenues over expenses	\$ 9,006,884
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Call2Recycle Canada, Inc. Statement of Cash Flows

For the year ended December 31

2017

Cash flows from operating activities:

Excess of revenues over expenses	\$ 9,006,884
Items not affecting cash:	
Net realized and unrealized gains on investments	(45,319)
	<u>8,961,565</u>
Changes in non-cash working capital:	
Accounts receivable	(39,217)
Accounts payable and accrued liabilities	(2,474,269)
Other assets	117,955
	<u>6,566,034</u>

Cash flows from investing activities:

Marketable securities	(8,530,075)
Capital contribution	3,486,301
	<u>(5,043,774)</u>

Cash flows from financing activities:

Opening contribution of cash	<u>208,619</u>
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Net increase in cash **1,730,879**

Cash, beginning of the year -

Cash, end of the year **\$ 1,730,879**

Call2Recycle Canada, Inc. Notes to Financial Statements

December 31, 2017

1. Significant Accounting Policies

Nature and Purpose of Organization

Call2Recycle Canada, Inc. (the Company) is a not-for-profit organization formed on January 1, 2017. The Company's head office is registered in Toronto Ontario, and conducts its operations throughout all of Canada.

The Company's purpose is to promote social welfare by addressing environmental concerns related to the recycling or proper disposal of consumer batteries. The Company operates battery collection and recycling programs and educates the public with respect to the proper disposal and recycling of batteries.

The Company seeks to be the leader in the environmentally sound collection, transportation and recycling of batteries. The Company is committed to a cleaner, healthier environment through public education on battery recycling. All aspects of the Company's business are conducted in an environmentally sensitive manner, as the Company is convinced that sound environmental product stewardship and sound business practices go hand in hand.

The Company is exempt from income tax under Section 149(1) of the Income Tax Act (Canada).

Basis of Accounting

The financial statements have been prepared using Canadian accounting standards for not-for-profit organizations.

Call2Recycle Canada, Inc. Notes to Financial Statements

December 31, 2017

1. Significant Accounting Policies (continued)

Revenue Recognition

The Company follows the deferral method of accounting for revenues.

Unrestricted revenues are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured. Restricted revenues are recognized as revenue in the year in which the related expenses are incurred.

Steward fees are received from legally obligated stewards in 3 regulated provinces (BC, MB and QC), and from non-legally obligated battery manufacturers in all other jurisdictions based on sales into those jurisdictions. The Company recognizes these fees as revenue in the year that battery units are sold by the stewards to consumers and businesses.

The costs of the corresponding collection and recycling for some of these batteries may occur in future years, and those associated costs are reported as expenses of the Company in the year that they are incurred. Call2Recycle Canada, Inc. is committed to the collection and recycling of these batteries.

Unrestricted net investment income is recognized as revenue when earned.

Unrestricted revenues from the sales of recycled materials are recognized in income when the recovered materials are sold and the amount to be recovered can be estimated and collection is reasonable assured.

Call2Recycle Canada, Inc. Notes to Financial Statements

December 31, 2017

1. Significant Accounting Policies (continued)

Financial Instruments	<p>Financial instruments are recorded at fair value at initial recognition.</p> <p>In subsequent periods, equities traded in an active market and derivatives are reported at fair value, with any change in fair value reported in income. Transaction costs on the acquisition, sale or issue of financial instruments are expensed for those items measured at fair value.</p> <p>Financial assets are tested for impairment when indicators of impairment exist. When a significant change in the expected timing or amount of the future cash flows of the financial asset is identified, the carrying amount of the financial asset is reduced and the amount of the write-down is recognized in net income. A previously recognized impairment loss may be reversed to the extent of the improvement, provided it is not greater than the amount that would have been reported at the date of the reversal had the impairment not been recognized previously, and the amount of the reversal is recognized in net income.</p>
Use of Estimates	<p>The preparation of the financial statements requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Significant items subject to such estimates and assumptions include:</p> <ul style="list-style-type: none">- accrued expenses- allocation of expenses- allowance for doubtful accounts
Accounts Receivable	<p>Uncollectable amounts receivable are written off at the time the accounts are determined to be Uncollectable. There is no allowance for doubtful accounts at December 31, 2017 as management of the Company considers any possible bad debts to be negligible.</p>
Expenses	<p>Material management and processing costs are recorded when the collection and processing services (freight, handling, recycling of materials) has been provided. Other expenditures are recognized as incurred.</p>

Call2Recycle Canada, Inc. Notes to Financial Statements

December 31, 2017

2. Commencement of Operations

This Company was formed upon the amalgamation of Call2Recycle Canada, Inc. and Appel A Recycler Canada, Inc. on January 1, 2017. Prior to that date the former entities were under the common control of Call2Recycle, Inc., an entity located in the United States of America. The Company and Call2Recycle US entered into a separation agreement, effective January 1, 2017, to formalize the Company as an independent entity. Prior to January 1, 2017, Call2Recycle, Inc US and Call2Recycle Canada, Inc. presented combined financial statements. Based on the separation agreement, the Company received an initial capital contribution of \$4,715,347 to fund its continuation into Canada as a separate legal entity.

3. Cash

The Company maintains the majority of its cash balance in a Canadian financial institution. The Canada Deposit Insurance Corporation (CDIC) insures this account up to \$100,000 for this financial institution. From time to time the aggregate funds held in this institution may exceed the CDIC insured limits and may not be covered by CDIC insurance. Management does not anticipate any material effect on the financial position of the Company as a result of this concentration.

4. Line of Credit

The Company has a line of credit agreement with a bank which provides borrowings up to \$1,500,000. Borrowings under the agreement bear interest at Canadian Dollar Offer Rate plus 2%. At December 31, 2017, there were no borrowings against the line of credit. Borrowings under the line of credit are secured by substantially all of the investments held by the Company.

5. Investments

The carrying amounts of investments are comprised of the following:

	<u>2017</u>
At fair value:	
Cash held for long-term investment	\$ 4,189,985
Equity investments	1,312,518
Bonds	2,509,255
Real estate	229,901
Hedge fund investments	333,735
	<u>\$ 8,575,394</u>

Call2Recycle Canada, Inc. Notes to Financial Statements

December 31, 2017

6. Government Remittances

Included in accounts payable and accrued liabilities are government remittances payable of \$684,650.

7. Allocation Expenses

Expenses are charged directly to their respective jurisdiction based on actual costs as incurred. When expenses are not identified to a specific jurisdiction, but benefit all jurisdictions, they are allocated among the jurisdictions based on the Company's allocation methodology. Collections and processing costs are allocated based on battery collections for each jurisdiction. Salary and benefits are allocated based on employee time allocation by jurisdiction. Other expenses, including professional fees, general marketing, communication and promotion, shared service costs, office supplies, and occupancy, which cannot be identified with a specific jurisdiction are allocated based on the percentage of all battery collections for each jurisdiction.

8. Board Designated Net Assets

The Company's governing board has designated \$8,333,069 as of December 31, 2017 for future use in the regulated provinces of Quebec, British Columbia and Manitoba. The designated balances by regulated province are as follows:

Quebec	\$ 5,790,695
British Columbia	1,944,387
Manitoba	<u>597,987</u>
Total	<u>\$ 8,333,069</u>

9. Significant Contractual Arrangements

The Company is governed by a Board of Directors that is separate and independent of its former parent entity, but continues to contract accounting and managerial services from Call2Recycle, Inc. US. Fees paid for contracted services to Call2Recycle, Inc. US for 2017 were CDN \$1,099,871. This fee is assessed to the Company net of a US \$552,860 fee recovery collected by Call2Recycle, Inc. US for battery seal license fees collected from US battery companies who are selling into certain Canadian markets. Included in accounts payable and accrued expenses is an amount of \$628,889 in respect of these contracted services.

Call2Recycle Canada, Inc. Notes to Financial Statements

December 31, 2017

10. Financial Instruments

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 Company is exposed to credit risk resulting from the possibility that the registrants of the Company defaults on their financial obligations; if there is a concentration of transactions carried out with the same counterparty; or of financial obligations which have similar economic characteristics such that they could be similarly affected by changes in economic conditions. The Company's financial instruments that are exposed to concentrations of credit risk relate primarily to its accounts receivable. The Company's registrants are numerous and diverse, which reduces the concentration of risk. Management closely evaluates the collectibility to mitigate this risk.

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. The Company is exposed to financial risk that arises from fluctuations in the sale of recyclable batteries and consumer electronic products. This risk is minimized by an expected corresponding decrease in program delivery and recycling process expenses and by the regulations established by the respective Department of the Environment in each jurisdiction in which the Company operates.

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 Company is exposed to currency risk as a result of its significant contractual arrangement for accounting and managerial services (Note 9) with a US organization.

Call2Recycle Canada, Inc.
Schedule of Operations by Province

For the year ended December 31, 2017

Revenue	QC	Regulated Provinces		Total	General and Other Jurisdictions	Grand Total
		BC	MB			
Steward fees	\$ 9,004,355	\$ 5,068,297	\$ 1,135,376	\$ 15,208,028	\$ 4,653,555	\$ 19,861,583
Investment income	34,154	9,788	3,010	46,952	28,442	75,394
Other	87,765	38,774	8,162	134,701	191,789	326,490
Total revenue	9,126,274	5,116,859	1,146,548	15,389,681	4,873,786	20,263,467
Expenses						
Material management & processing	2,467,972	1,830,841	235,810	4,534,623	2,215,789	6,750,412
Marketing & communications	360,215	277,502	76,762	714,479	66,651	781,130
Other (Salary, Professional, Administrative)	1,501,513	1,064,129	235,989	2,801,631	923,410	3,725,041
Total expense	4,329,700	3,172,472	548,561	8,050,733	3,205,850	11,256,583
Excess revenue over expense	4,796,574	1,944,387	597,987	7,338,948	1,667,936	9,006,884
 Capital contribution (Note 2)	 994,121	 -	 -	 994,121	 3,721,226	 4,715,347
Excess revenue over expense	4,796,574	1,944,387	597,987	7,338,948	1,667,936	9,006,884
End of year net assets	\$ 5,790,695	\$ 1,944,387	\$ 597,987	\$ 8,333,069	\$ 5,389,162	\$ 13,722,231